

# **An Evaluation of the Implementation of Strategic Sourcing in the Western Cape Government**

by

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## Abstract

The current weak economic environment has warranted that government reassess its spending behaviour as there is less revenue to cover all of the policy primacies. Strategic sourcing, as a procurement methodology, can guarantee savings of between 3-5% per annum whilst public sector projects have averaged savings of as much as 28%. Strategic sourcing is described as the process of crafting and organising networks of supply in line with the strategic and operational objectives of the organisation whereas the public sector has adopted the definition that refers to “a *collaborative and structured process of critically analysing an organisation’s spending and using this information to make business decisions about acquiring commodities more efficiently and effectively*”. Whilst, it has been extensively applied in the private sector, limited application of strategic sourcing has been seen in the public sector.

The research was therefore intended to augment the literature by evaluating how strategic sourcing was implemented by the Provincial Treasury in Western Cape Government (WCG). The research design comprised a literature review and a qualitative case study. The Delphi Group methodology was used given its ability to provide informed consensus from expert panellists. The first round of the Delphi study consisted of an online, Likert-type scale questionnaire denoted of themes of key success factors for strategic sourcing whilst the second round comprised a brainstorming workshop with the Provincial Treasury strategic sourcing team and the strategic sourcing management consultants.

The study revealed that whilst strategic sourcing formed part of the objectives of the Provincial Treasury, there was no Top Management involvement in the execution of strategic sourcing and no Chief Procurement Officer to champion strategic sourcing in the Western Cape Government. It was also found that no structural reorganisation occurred with the implementation of strategic sourcing in view of the fact that the function had to be performed in addition to other existing roles and responsibilities. The predominant compliancy focus of the directorate, responsible for strategic sourcing, was also found to be counter-intuitive to the innovative, business-oriented role that is sought by strategic sourcing. From a governance perspective, gaps included a lack of an organisation-wide steering committee to oversee the implementation of strategic sourcing, lack of a benefits-tracking mechanism and the need for increased supplier involvement in the execution of strategic sourcing. The

implementation of strategic sourcing did however succeed in orienting the WCG to procurement spend analysis, created an awareness of strategic sourcing and increased the uptake of business intelligence and technology.

The key recommendations from the research included that provincial departments, as opposed to the Provincial Treasury, spearhead the implementation of strategic sourcing. That the Provincial Treasury appoint a Chief Procurement Officer to champion provincial strategic sourcing strategies and efficiency goals in line with cost containment targets. That a WCG cross-functional steering committee be established to oversee the development and implementation of strategic sourcing. That a Directorate for strategic sourcing be established as the compliancy focus of the current directorate would continue to detract from the priority that the strategic sourcing function should achieve in view of the drive by the National Treasury to reduce government expenditure. It is concluded that given the intricacies of government and how the gaps in the Provincial Treasury's implementation mirrored those found in the United States Federal Strategic Sourcing Initiative (FSSI), there is a need for future research to be undertaken to develop a bespoke model for the implementation of strategic sourcing in a public sector environment.

## Opsomming

Die huidige swak ekonomiese klimaat het die regering genoop om sy bestedingsbeleid te hersien aangesien daar minder inkomste is om al die noodsaaklike uitgawes te dek. Strategiese aankope, wat ontwikkel het as 'n manier om aankope te doen, kan besparings van tussen 3-5% per jaar teweegbring, terwyl projekte in die openbare sektor gemiddeld besparings van tot soveel as 28% tot gevolg kan hê.

Strategiese aankope word beskryf as die proses waarvolgens netwerke ontwikkel en georganiseer word dienoorenskottig die aanbod wat dit op een lyn bring met die strategiese en operasionele doelwitte van die organisasie. Daarenteen het die openbare sektor die definisie aanvaar wat omskryf kan word as die wyse waarop "n organisasiese se besteding op 'n gesamentlike en gestruktureerde wyse krities ontleed word en hierdie inligting dan gebruik word om besigheidsbesluite te neem om sodoende kommoditeite op 'n meer doeltreffend, en effektiewe wyse aan te koop." Terwyl hierdie beginsel wyd toegepas word in die private sektor, is daar min tekens van strategiese aankope in die openbare sektor.

Die navorsing is dus hoofsaaklik daarop gemik om die bestaande literatuur uit te brei deur die evaluering van hoe strategiese aankope geïmplementeer word deur die Provinsiale Tesourie in die Wes-Kaapse Regering. Die ontwerp van die navorsing bestaan uit 'n oorsig van die bestaande literatuur en 'n kwalitatiewe gevallestudie. Die metodiek van die Delphi-Groep is gevolg gegewe sy vermoë om ingeligte konsensus van deskundige paneellede te voorsien. Die eerste rondte van die Delphi-studie het bestaan uit 'n aanlyn, Likert-tipe skaal-vraelys wat temas van sleutelsuksesfaktore vir strategiese aankope aandui, terwyl die tweede rondte bestaan het uit 'n dinkskrum-werkswinkel met die span wat verantwoordelik is vir strategiese aankope vir die Provinsiale Tesourie asook die bestuurskonsultante belas met strategiese aankope.

Die studie het getoon dat terwyl strategiese aankope een van die van die Provinsiale Tesourie se doelwitte is, was daar geen betrokkenheid van die top-bestuur by strategiese aankope nie en ook geen Hoofbeampte wat kon omsien na strategiese aankope in die Wes-Kaapse Regering nie.

Daar is voorts bevind dat daar geen strukturele herorganisasie plaasgevind het met die implementering van strategiese aankope nie. Dis gesien in die lig van die feit dat die uitvoering van sodanige funksie bykomend was tot ander bestaande rolle en verantwoordelikhede. Daar is voorts ook gevind dat die vernaamste insiklikheidsfokus van die Direktoraat, wat verantwoordelik is vir strategiese aankope, teen-intuïtief is gemeet aan die innoverende, sake-georiënteerde rol wat strategiese aankope behoort te speel. Vanuit 'n regeringsoogpunt beskou, bestaan daar ook leemtes, onder meer 'n gebrek aan 'n breë organisatoriese bestuurskomitee om toesig te hou oor die implementering van strategiese aankope; 'n gebrek aan 'n meganisme om voordele te bepaal; en die behoefte aan 'n groter betrokkenheid van die verskaffer by die uitvoering van strategiese aankope. Die implementering van strategiese aankope het egter wel daarin geslaag om die Wes-Kaapse Regering te oriënteer wat betref die analise van sy aankope-besteding, en ook om 'n bewustheid te skep ten opsigte van strategiese aankope en die noodsaaklikheid vir die Wes-Kaapse Regering om sake-intelligensie en tegnologie in in te span.

Die belangrikste aanbevelings van die navorsing sluit in dat provinsiale departemente, in teenstelling met die Provinsiale Tesourie, verantwoordelik moet wees vir die implementering van strategiese aankope. Voorts dat die Provinsiale Tesourie 'n Hoof-Beampte vir Aankope aanstel wat fokus op provinsiale, strategiese aankoopstrategieë en wat ook omsien na doeltreffendheidsdoelwitte in lyn met kostebeheer-teikens. En dan dat die Wes-Kaapse Regering 'n kruis-funksionele bestuurskomitee tot stand bring om toesig te hou oor die ontwikkeling en implementering van strategiese aankope. Dan moet 'n Direktoraat vir strategiese aankope gestig word omdat die insiklikheidsfokus van die huidige Direktoraat na alle waarskynlikheid sal voortgaan om afbreuk te doen aan die prioriteit van die strategiese aankope-funksie in terme van doelwitte daargestel deur die nasionale tesourie om staatsbesteding te verminder.

Opsommenderwys kan gesê word dat, gegewe die kompleksiteit van die regering en as gevolg van die bestaande leemtes wat betref die implementering deur die Provinsiale Tesourie, 'n situasie ontstaan het wat ook in die Verenigde State van Amerika se Federal Strategic Sourcing Initiative (FSSI) ter sprake kom. Daar bestaan dus 'n behoefte aan verdere navorsing ten einde 'n geskikte model vir die ontwikkeling van implementering van strategiese aankope in 'n openbare sektor-omgewing te vind.

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## List of Acronyms and Abbreviations

APP	Annual Performance Plan
CAO	Chief Acquisition Officer
CAOC	Chief Acquisition Officers Council
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMF	Change Management Framework
CPO	Chief Procurement Officer
CIPS	Chartered Institute of Purchasing and Supply
CPAR	Country Procurement Assessment Report
ERP	Enterprise Resource Planning
ESA	Executive Sponsor Agency
FMCM	Financial Management Capability Maturity Model
FSSI	Federal Strategic Sourcing Initiative
GDP	Gross Domestic Product
HDI	Historically Disadvantaged Individuals
ICT	Information and Communication Technologies
IFMS	Integrated Financial Management System
LBSM	Laseter's Balanced Sourcing Model
MTEF	Medium Term Expenditure Framework
NPM	New Public Management
NT	National Treasury
OECD	Organisation for Economic Cooperation and Development
OFPP	Office of the Federal Procurement Policy
OMB	Office of the Management and Budget
PCE	Procurement Centre of Excellence
PESTEL	Political, Economic, Social, Technological, Environmental and Legal
PFMA	Public Finance Management Act
PMO	Project Management Office
PVM	Public Value Management
ROI	Return on Investment
SARS	South African Revenue Services

SCI	Specialist Commodity Indices
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SMME	Small, Medium and Micro-enterprises
SSWG	Strategic Sourcing Working Group
SWOT	Strengths, Weaknesses, Opportunities and Threats
TCO	Total Cost of Ownership
VFT	Value Focussed Thinking
USA	United States of America
UNSPSC	United Nations Standard Products and Services Code
WCG	Western Cape Government



# **CHAPTER 1:**

## **INTRODUCTION AND RESEARCH PROBLEM**

### **1.1 INTRODUCTION AND RATIONALE OF STUDY**

The current weak economic environment has resulted in government having to reassess its spending behaviour where cost containment measures are being imposed by the National Treasury as a result of there being less than sufficient revenue to cover all of government's policy priorities. A Provincial Treasury is tasked in terms of the Public Finance Management Act (Act 1 of 1999) (Republic of South Africa, 1999) to prepare the provincial budget and to exercise control over the implementation of said budget. Treasuries are therefore faced with the challenging task of allocating limited financial resources as equitably as possible whilst ensuring that there remains continuity in policy primacies.

A similar environment of fiscal constraint confronted the private sector when it first turned to the practice of strategic sourcing during the 1980-1990's. The methodology of strategic sourcing is aimed at maximising cost savings, value in the supply chain and leveraging process and technology for creating greater efficiency. Strategic sourcing thus appealed to the private sector in that it guaranteed savings of between 3-5% per annum while management consultants such as McKinsey and Company claim to have achieved savings of as much as 28% across their public sector projects ( & Reinecke, 2009:1). If one considers the size of the Western Cape Government's annual estimated budget for goods, services and capital assets; which averages between R15 -20 billion; the application of strategic sourcing could prove to be a worthwhile exercise given this substantial and growing budgetary trend.

In terms of the prevalence in the literature, the United States of America (USA) has been most progressive in the adoption of management tools from the private sector where public sector implementation of strategic sourcing has been in progress since 2005. Rendon's (2005:7-20) account of the United States' Department of Defence's experience with the implementation of strategic sourcing dominates the literature on public sector adoption whilst Reed, Bowman & Knipper's (2005:271-289) work is

unique in that it provides for a comparison between private sector and public sector utilisation of commodity councils which is central to the execution of strategic sourcing. Apart from the literature that has emanated from federal reviews, there are virtually no publications that focus on the implementation of strategic sourcing in the public sector.

The research is consequently aimed at supplementing the literature on the application of strategic sourcing in the public sector and, from a practical perspective, to assist the Provincial Treasury in enhancing its efforts around the roll out of strategic sourcing in the Western Cape Government. Although beyond the scope of this study, it is envisaged that the research could furthermore lay the foundation for the development of a framework or model for the implementation of strategic sourcing that would be tailored to the South African Public Sector.

## **1.2 KEY CONCEPTS AND DEFINITIONS**

To facilitate an understanding of the terms used in the research study, a list of definitions and key concepts are clarified below:

### **Supply Chain Management**

Mentzer, DeWitt, Keebler, Min, Nix, Smith & Zacharia, (2001:2-3) define supply chain management (SCM) as *“the systematic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole”*.

### **Strategic Sourcing**

Strategic sourcing is described as the process of crafting and organising networks of supply in line with the strategic and operational performance objectives of an organisation (Narasimhan & Das, 1999:692). It is also defined by Johnson (2005:1-2) *“as the collaborative and structured process of critically analysing an organisation’s spending and using this information to make business decisions about acquiring commodities more efficiently and effectively”*.

### **Efficiency**

Refers to the degree to which an organisation produces a given output with a minimum amount of inputs. Manzoor (2014:2) is of the view that this definition is too narrowly focussed as it precludes elements of quality and value which are inherent dimensions of the public administrative system.

### **Effectiveness**

The term is defined by Monczka, Handfield, Guinipero & Patterson (2011:736) as *the extent to which a chosen course of action meets an established goal*.

### **Value for Money**

Represents the optimum combination of total cost of ownership and quality to meet the buyer's requirements (New Zealand Government, 2011:57).

### **Financial Management Capability Maturity Model (FMCMM)**

Refers to the tool used by the National Treasury and departments to monitor and evaluate the financial performance and compliance management of government institutions (National Treasury, 2015:69).

### **Supply Chain Management Capability Maturity Model**

A component of the FMCMM that assesses supply chain management (SCM) capability within an organisation (National Treasury, 2015:70).

### **Total Cost of Ownership (TCO)**

The present value of all costs associated with a product, service, or capital equipment that is incurred over its expected life span (Monczka, Handfield, Guinipero & Patterson (2011:661).

### **Commodity**

The term refers to categories or groups of goods and services, according to Rendon (2005:12).

The terms *procurement*, *purchasing*, *supply management* and *supply chain management* are used interchangeably in the literature and in this research report.

### 1.3 THEORETICAL PERSPECTIVES

The study is positioned in the area of financial management and specifically supply chain management. In South Africa, public procurement started its first overhaul in 1995 as part of the overall drive for improvements within the public sector. The New Public Management (NPM) approach was adopted which resulted in a Country Procurement Assessment Review (henceforth, CPAR) being performed by the World Bank in conjunction with National Treasury in 2003. Recommendations from the CPAR resulted in the introduction of the concept of *supply chain management* in 2003 where it was envisaged that the approach would increase the value-add of the procurement function (World Bank, 2003:9).

NPM as a philosophy highlights the importance of a citizen-centric orientation and achieving efficiencies through the management of inputs and outputs, (Stoker, 2006:44; Mars, 2014:4). Matheson & Kwon (2003:8) however maintain that the reforms have had unforeseen consequences on government in its entirety and that success has varied with the adoption of this management philosophy. They maintain that one set of problems was essentially traded for another where issues around efficiency and consumerism were replaced with problems of governance, strategy, risk management and adaptability. Given the shortcomings of NPM, Public Value Management (PVM) seems to offer a new paradigm and a different narrative of reform. The philosophy of PVM furthermore appears to be more organically aligned to the values of consultation, coordination and collaboration which are instrumental in the execution of strategic sourcing.

Although methodologies such as strategic sourcing were introduced in the public sector as a result of reforms that have originated in the NPM, the concerns around a specific context for its success appear to be warranted in the literature.

Public and private sector procurement differ in their fundamental goals and practices where the private sector is seen to be more receptive to entrepreneurship and innovation whilst public procurement is based on legislation, policy and process. This distinction has allowed the private sector to redefine procurement whilst the public sector still struggles to institutionalise strategic SCM (Ambe, 2012:136-137). Telgen, Harland & Knight (2007:16-24) have analysed the differences between the private and public sector in relation to procurement and concluded that whilst both sectors pursue

the objective of procuring goods and services at the optimum cost, additional demands are placed on public sector procurement.

Among these demands are the imposition of procurement laws and the advancement of political objectives. These could directly conflict with the goals and objectives of strategic sourcing where cost efficiencies could be traded off for political objectives. Legislation and its impact on strategic sourcing are consequently discussed in addition to how *people*, *process* and *technology* impact the execution of strategic sourcing. The aforementioned is intended to fully frame the context against which strategic sourcing will unfold in the WCG.

The evolution of the procurement function from a transactional to a strategic sourcing approach is key to the strategic supply management. Strategic sourcing epitomises this transition and the concept of *strategic sourcing* will be defined followed by a step-by-step account of the strategic sourcing planning and execution process based on Laseter's Balanced Sourcing Model. Specific tools used in the various stages of the strategic sourcing process need to be briefly discussed whilst the work of Rendon (2005:271-289) and Reed, Bowman & Knipper (2005:7-20) around cross-functional teams, which is central to the execution of strategic sourcing, require coverage to further contextualise strategic sourcing. The information generated will be used as a technical benchmark to assess the process that was followed by the Western Cape Provincial Treasury to execute strategic sourcing.

The literature review is concluded with two best practice case studies in order to demonstrate what success would look like in the implementation of strategic sourcing. The two cases were selected based on the comprehensiveness of their approaches and being commendable examples of the implementation of strategic sourcing in their respective sectors. The Sasol case is a private sector example whilst the United States Federal Strategic Sourcing Initiative was chosen to reflect implementation in a public sector context.

## 1.4 RESEARCH AIM, OBJECTIVES AND QUESTION

The Western Cape Government's budget for goods and services and capital assets was estimated to be R16.5 billion for the 2016/17 financial year (Provincial Treasury, 2013:67). Currently, procurement practices across provincial departments are disaggregated, highly transactional and limited in value add. The methodology of strategic sourcing has the ability to yield cost savings of between 3-5% per annum whilst McKinsey and Company (Husted et al., 2009:1) indicate an average saving of 28% across their public sector projects. (Mars, 2014:1-3.)

Although the methodology of strategic sourcing is extensively adopted in the private sector, limited application is seen in the public sector which leaves a gap in the literature and limits the cases to benchmark against when embarking on strategic sourcing.

The research aims to determine whether strategic sourcing was successfully implemented by the Provincial Treasury in Western Cape Government (WCG). The research objectives are as follows:

- a) To determine what the theoretical framework and case studies indicate as the manner in which strategic sourcing ought to be implemented;
- b) To assess how the Provincial Treasury implemented strategic sourcing in WCG;
- c) To determine the gaps between objectives (a) & (b); and
- d) Make recommendations in terms of what needs to be done to bridge the gaps in the implementation of strategic sourcing (Mars, 2014:4-5)

The research is intended to answer the question: *How well did the Provincial Treasury implement strategic sourcing in Western Cape Government?*

## 1.5 RESEARCH DESIGN AND METHODOLOGY

The proposed study will comprise a non-empirical component which constitutes a literature review. The literature review will include the theoretical frameworks that span:

- a) Public sector reforms and the contextual differences between private and public sector procurement;
- b) The Supply Chain Management context as it relates to policy, people, process and technology/tools; and
- c) Strategic sourcing theory, best practice case studies from the private and public sector and key success factors for the implementation of strategic sourcing

The empirical part of the study will be qualitative in nature and constitute a case study design where the social intervention will be studied. A Delphi Group methodology will be applied and the two groups of specialists that will be targeted for the Delphi Group are the strategic sourcing team from the Provincial Treasury and the strategic sourcing management consultants. The first round or iteration will consist of the distribution of a Likert-type scale, self-administered questionnaire composed of critical success factor themes identified for strategic sourcing. Information so obtained will be collated and analysed to obtain an overall summary which will be distributed to the two groups and further explored at a brainstorming workshop to obtain consensus and solutions on how to improve on the process of implementing strategic sourcing.

## 1.6 CHAPTER OUTLINE

### **Chapter 1: Introduction and research problem**

The chapter provides an introduction to the research problem and the rationale behind the study.

### **Chapter 2: Public Sector Reforms and SCM Context**

The chapter introduces public sector reforms and specifically New Public Management (NPM) and its associated challenges, given that most reforms have their genesis in NPM. Various levels of context are provided for supply chain management which include the differences between private and public sector procurement functions.

### **Chapter 3: The SCM Context (Policy, People, Process and Technology)**

The SCM context is discussed in terms of some of the key dimensions of procurement standards in order to fully frame the context within which strategic sourcing has to unfold via the elements of *people*, *process* and *tools/technology*.

### **Chapter 4: Strategic Sourcing: Theory and Application**

The chapter relates how a procurement function evolves from a tactical to a strategic function. Strategic sourcing theory and the process is discussed with specific emphasis on commodity teams as a core element of executing the strategic sourcing process.

### **Chapter 5: Best Practice Case Studies**

Two case studies are introduced to demonstrate the application of strategic sourcing in the private and public sector. Critical success factors are established for strategic sourcing.

### **Chapter 6: Introduction to the Provincial Treasury Directorate: Provincial Government Supply Chain Management**

Background information is provided on the directorate within the Provincial Treasury that is responsible for the implementation of strategic sourcing within Western Cape Government.

### **Chapter 7: Design and Methodology**

The chapter deals with the research design and methodology that will be applied in the study. A literature review constitutes the non-empirical portion of the study whilst the empirical part of the study is qualitative in nature and constitutes a case study design. The Delphi Group method, comprising an iteration of two rounds will be applied. The two rounds will comprise a Likert-type scale online questionnaire and a brainstorming workshop to obtain consensus.



## **Chapter 8: Findings**

The findings from the empirical part of the study will be discussed in this chapter.

## **Chapter 9: Conclusions and Recommendations**

Conclusions and recommendations from the study will be discussed in this chapter.

### **1.7 DELIMITATIONS OF THE STUDY**

The study focuses on the implementation process followed in the application of strategic sourcing in a single case study in a specific environment, being that of the provincial public sector. It is by no means exhaustive and will mostly assess the implementation process from a people, process and technology perspective. Strategic sourcing as an approach has many touchstones in a broad range of disciplines which encompasses behavioural sciences, organisational design, change management and many more disciplines which is not done justice to within the limited scope of this study.

### **1.8 SUMMARY AND DEDUCTIONS**

The chapter provides an overview of the research problem and the rationale for embarking on the study. Key concepts and definitions that are going to be used in subsequent chapters are delineated and a summary of the theoretical perspectives, encompassed in the literature review is provided. The literature summary is trailed by the introduction of the research aim and objectives where after the intended research design and methodology are briefly discussed. The chapter is concluded with an outline of the ensuing chapters and the limitations of the study.

## **CHAPTER 2:**

# **PUBLIC SECTOR REFORMS AND THE CONTEXTUAL DIFFERENCES BETWEEN PUBLIC AND PRIVATE SECTOR PROCUREMENT**

### **2.1 INTRODUCTION**

The chapter aims to situate the methodology of strategic sourcing within its core founding discourse, being that of the NPM. Noticeable contextual challenges were seen with the introduction of NPM which is important for the purpose of the study as it could support/explain some of the findings in the assessment of the implementation of strategic sourcing. A review of the shortcomings of NPM will be undertaken where after PVM will be briefly covered as a variation of NPM as its approach appears to be comparable to the one followed by strategic sourcing.

Government, as the largest procurer of goods and services, across most countries have procurement expenditure that amounts to between 10-30% of Gross Domestic Product (GDP). In the South African context, procurement expenditure in 2013/14, accounted for approximately R500 million which constitutes just under half of the annual revenue collected by the South African Revenue Services (SARS). Despite the enormity of this amount, procurement in the public sector remains highly transactional; has a high degree of complexity and administrative cost; receives disproportionate value in return; lacks transparency and is seen as the conduit for numerous political objectives according to Costa, Arantes & Tavares (2013:238).

It becomes apparent that the public sector procurement system is highly complex to navigate and needs to be further explored in order to understand why the private sector, by contrast, has been able to extract maximum value from its procurement function whilst the largest procurer of goods and services struggles to replicate this value proposition from the same function. According to Yagoob & Ting (2015:40), the public sector continuously fails to implement procurement reforms that produce the desired change and has failed to integrate commercial best practices as part of the standardised approach to procurement in the public sector.

The chapter is concluded with the key differences between the public and private sector procurement function and the barriers that limit the public sector procurement function from becoming equally efficient. This furthermore serves to expand on the role that context plays in the adoption of private sector best practices as was premised with the introduction of the NPM reforms.

## **2.2 PUBLIC SECTOR REFORMS**

Governments all over the world have sought to improve their administrations through the adoption of private sector derived instruments encompassed by the NPM archetype. NPM was introduced during the late 1970's, when the traditional bureaucratic archetype of most Western governments came under attack as a result of the financial crises, discontent over the inflexibility of the bureaucracy and decreasing public trust. It led to the introduction of new, management approaches aimed at re-engineering the public sector in order to strengthen the connections between government and civil society and increase levels of efficiency. Private sector models were widely prescribed and as a result numerous reforms have taken place throughout the world.

Varying degrees of the adoption of the key principles of NPM were seen in different countries which translated into multiple versions of NPM. This observation was made by Pollitt, van Thiel & Homburg (2007:1-7) who indicated that there was both divergence and convergence seen in the approach to NPM. The authors cautioned against the assumption that the manifestation of the reforms were the same across countries and that consequently one should not presume that transposing ideas under the banner of NPM would yield similar results in the various contexts where it is applied.

Earlier challengers of NPM such as Harrow & Wilcocks (1990:281-303), asserted that management techniques based on NPM ideology conflict with the attitudes, values and culture that prevail in the public sector. Matheson & Kwon (2003:8-13) concluded that the instrumentalist reforms have had unforeseen consequences on government in its entirety and that success has varied with the adoption of the NPM philosophy.

It would appear that in the efforts to improve efficiency there was a fixation on the instruments or tools of reform without consideration for the context in which the

changes had to be implemented and the effect that it would have on the broader governmental system. The reforms were implemented to only address issues around efficiency and consumerism and neglected to recognise that government was a system of interdependent parts where a change in one part of the system would invariably lead to changes in another area and not having anticipated this led to problems of governance, strategy, risk management and adaptability. These shortcomings were seen to be amplified in countries where the baseline governance and control systems were weak as appears to be case in developing countries such as South Africa (Matheson et al., 2003:8-13).

Schedler & Scharf (2001:777) believe that organisational learning is essential for the efficiency of processes within the NPM. The procurement frameworks of developed and developing countries were studied by Schapper, Malta & Gilbert (2006:1-26) who found that public sector procurement frameworks were characterised by an unstable tension between the expectations of transparency and accountability; and the efficiency and effectiveness of resource management. This conformance – performance tension is proposed to be the reason why procurement reforms are so challenging. Although the reforms are initiated by a need to increase accountability for outcomes, the resultant shift in focus leads to an inevitable lapse in due process which leads to a refocussing on compliance and regulation so that, metaphorically speaking, the pendulum continuously swings between conformance and performance. This perspective could possibly explain the exacerbated response seen to NPM in developing countries by Mattheson et al. (2003:8-13).

Some critics of NPM are of the view that the differences between the public and private sector are so vast that management practices actually cannot be transferred. Jarrar & Schiuma (2007:5) concluded that the implementation of private sector-derived performance management systems in the public sector was met with limited success as it represented a shift in the public sector values of equity, security and flexibility towards the private sector values of individualism and efficiency. PVM, as a variation of NPM, is covered hereafter given that its tenets appear to be more analogous to the strategic sourcing approach.

### **2.2.1 Public Value Management**

PVM is posed in part as a response to the narrowly utilitarian character of NPM and is cited as the framework within which to comprehend the management challenge proposed by network governance and has a more comprehensive understanding of efficiency, accountability and equity. The management approach also acknowledges that there are distinct differences between the public and private sector and that one cannot apply a reductionist approach where governing is seen to be tantamount to shopping for goods and services in a market-driven economy. As a result some of the prescriptions of NPM drawn from the private sector may not be appropriate given that politics cannot be confined to a specific space as it is valued as a mechanism for social coordination. (Stoker, 2006:41-57)

In the procurement context, the philosophy aims to create an open-minded, relationship approach to the procurement of services, framed by a commitment to a public service ethos. Effective procurement requires an open-minded approach to identify the best supplier whilst consultation with end users, benchmarking, and open competition are seen as the mechanisms which will ensure that service delivery takes place. Ultimately, the strength of the philosophy is the ability to motivate without having to resort to rules or incentives to drive public service practice and reform. People are, it suggests, motivated by their involvement in networks and partnerships; that is, their relationships with others formed in the context of mutual respect and shared learning. (Stoker, 2006:41-57)

Given the shortcomings of NPM, PVM seems to offer a new paradigm and a different narrative of reform. Although methodologies such as strategic sourcing were introduced in the public sector as a result of reforms that have originated in the NPM, the concerns around a specific context for its success, appear to be warranted in the literature.

In essence, the philosophy of PVM appears to be more organically aligned to the values of consultation, coordination and collaboration which are instrumental in the execution of strategic sourcing as will be seen in chapter four of the study. Furthermore, the application of strategic sourcing has both tangible (cost efficiencies) as well as intangible (socio-economic and value) levers which could easily be aligned

to the expectations of society and in such manner create levels of “public value”. Spano (2014:361), mentions the use of a “stated preference model” to measure public value which could potentially be aligned to the “value focussed model” proposed by Myers (2013: 13-14, 21).

The differences between the public and private sector procurement functions and the key barriers which limit the efficiency in the public sector system are assessed in the next sub-section.

## **2.3 THE PROCUREMENT CONTEXT**

It was established in the prior section that there were varying levels of success with the adoption of reforms under the banner of NPM, given that the public sector context was not duly considered in the acceptance of commercial best practices. The unique characteristics of public sector procurement is discussed in the next section as it is premised that by sufficiently framing the context within which strategic sourcing has to be applied, gaps could be more readily identified and more responsive solutions developed to improve on the implementation of strategic sourcing in the Western Cape Government (WCG).

Procurement in the private sector is said to be driven by a culture of entrepreneurship and innovation whilst public sector procurement is imbedded in legislation, policy and process. This distinction has allowed the private sector to redefine procurement as a significant driver of value in the organisation whilst the public sector continues to struggle with the transformation of procurement as a value adding function. Telgen et al.,(2007:16-24) analysed the differences between the sectors in terms of the procurement function and concluded that whilst both sectors share in the objective of procuring goods and services at the optimum cost, additional demands are placed on public sector procurement. These demands will now be explored:

### **2.3.1 External demands of public procurement**

Transparency plays a key role in the execution of public sector functions. South Africa has a constitutional provision which imposes that *“When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a*

*system which is fair, equitable, transparent, competitive and cost-effective manner that is fair, equitable, transparent, competitive and cost effective”* (Republic of South Africa, 1996). Furthermore, the public sector must be seen to act with integrity and avoid improper, wasteful, corrupt and fraudulent practices. As a rule, government’s behaviour must be exemplary and be seen to set the example for society. The internal demands on public sector procurement will be discussed in the next sub-section.

### **2.3.2 Internal demands**

Public organisations serve multiple stakeholders and as a result will encounter conflicting goals. This can include the goals of politicians who aspire to leave their stamp and consequently have a tendency to change the direction of the administration when they come into power. This has proved to be challenging for reforms as change needs to be entrenched over longer periods than political terms allow. The demands from the governmental context will be discussed in the next sub-section.

### **2.3.3 Demands from the context that is government**

Public procurement is vested in a financial system that is budget driven and difficult to change as its processes are extensively legislated. Budgets of the following year are determined by expenditure in a prior year which is a disincentive for savings advocacy. The lack of use of a zero-based budgetary process in South Africa also makes it harder to lobby for strategic sourcing in the public sector. Provincial and Local Government for example, have mutually dependent budgets where there is a lack of optimisation as a result of the funding arrangements. Procurement could, for example, be leveraged at one level of government but is in fact distributed across spheres of government due to the funding arrangements which becomes counter-intuitive to efficiency gains premised by strategic sourcing. Furthermore, suppliers have access to budgetary information as it is published for transparency purposes which can impact the relationship between buyer and supplier. This phenomenon has been observed by the researcher in engagements with service providers. The demands from the procurement process is discussed hereafter.

### **2.3.4 Demands from the procurement process**

Public procurement has to be executed within the confines of strict rules and regulations which creates a culture of slow decision-making and risk aversion.

Similarly, the establishment of long-term supplier relationships is not pursued for fear of how it will be perceived. This can be especially problematic for strategic sourcing as it is indicated in the literature that much of the private sector's cost savings in terms of strategic sourcing were derived from longer term supplier relationships and integration of value chains (Searle, 2016:13; Duffie, 2005:14 & Accenture 2012:74). The multiple roles of the organisation and how they impact procurement in the public sector will be discussed in the next sub-section.

### **2.3.5 Multiple roles of the organisation**

Public organisations serve as governing bodies as they buy goods and services from suppliers who have a citizen interest and who are also consumers of government outputs. The public sector is therefore player, referee and decision-maker in terms of the rules and regulations that are imposed on the sector. This complexity can sometimes lead to a loss of value in the overall system. For instance, the National Treasury (policy maker) indicates that there are more than eighty (80) legal instruments which govern supply-chain management. The cost of administrating such a barrage of policies is borne at the departmental level through salaries and other fixed and variable costs which include an annual regulatory audit cost of approximately R5-10 million per government institution. As more policies are issued, the broader the scope of the audits become and so this cost escalates. If you assess the return on investment to the cost of the compliance you will find that for all this money spent, there is an overall sense of a lack of service delivery, government performance being below the minimum compliance level and that billions are wasted annually on irregular, unauthorised, fruitless and wasteful expenditure.

The critical success factors for continuous improvement in the public sector were studied by Fryer, Antony & Douglas (2007:507-508) who found that it was the culture in public sector organisations that actively impeded any attempts to implement a culture of continuous improvement. According to the findings of the study, barriers and challenges to the implementation of continuous improvement programmes in the public sector were tantamount to a lack of definition of the customer; rigidity of the organisation; and a lack of incentive to improve customer satisfaction in the case of monopolies (ESKOM being a perfect example of this).



It can thus be extrapolated that sector differences significantly impact how tools such as strategic sourcing, render in the public sector. This view is supported by the work of Reed et al., (2005:7-20) on the implementation of strategic sourcing via commodity councils in both sectors where it was determined that whilst there are established benefits to using private sector best practices, a careful analysis of the sector differences should be performed before it is attempted to implement these practices in the public sector.

## **2.4 SUMMARY AND DEDUCTIONS**

The chapter provided an overview of the challenges that have been noted across three decades of implementation of public sector reforms. It was found that there were significant variations of NPM across countries and that there were varying degrees of success with the adoption of this management approach. This was due to a lack of acknowledgement of the complexities within government and the interconnectedness of elements within the system. NPM, it would appear, was too rigid to deal with the complexity and change that is required in the public sector. Alternatives were subsequently sought to compensate for NPM's shortcomings with a resultant shift being seen in some countries towards a "whole of government" approach and a variant such as PVM. The principles followed by the PVM appear to be more akin to the principles of strategic sourcing given its focus on qualitative elements such as collaboration and consultation in contrast to NPM's narrow, quantitative approach.

The relevance of context was expanded upon by considering the differences between public and private sector procurement. It was concluded that sector differences play a significant role in how tools translate across the sectors. The public sector in particular is constrained by a complex and highly regulated environment, multiple stakeholder interests, rigid processes and a culture that intrinsically inhibits continuous improvement. These contextual challenges could potentially pose as barriers to the implementation of strategic sourcing when these are applied in the public sector. The findings of this chapter will be used to understand gaps identified in the implementation of strategic sourcing and to inform recommendations for the successful implementation of strategic sourcing. These will be respectively covered in Chapter 8 and 9 of this report.

## **CHAPTER 3: SCM CONTEXT (POLICY, PEOPLE, PROCESS AND TECHNOLOGY)**

### **3.1 INTRODUCTION**

The chapter provides an overview of the supply chain management legislation that impacts strategic sourcing. It further looks at the state of supply chain management in the public sector in relation to the elements of *people*, *process* and *technology*. Public sector procurement is highly constrained by procurement laws and politicians advancing their own political objectives that could directly conflict with the goals and objectives of strategic sourcing and lead to cost efficiencies being traded off for political objectives. The elements of *people*, *process* and *technology* are critical dimensions of a procurement standard and important drivers of change in the organisation. These elements will form part of the evaluation framework that will be used to assess how strategic sourcing was implemented in WCG. The policies which may impact strategic sourcing are now explored in the next section:

### **3.2 LEGISLATIVE CONTEXT**

The key policies which affect strategic sourcing include the Constitution of Republic of South Africa, Act 108 of 1996 (Republic of South Africa, 1996) and its emanating legislation; the Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999), its Regulations and the General Procurement Guidelines. These policies are now discussed in the sections below.

#### **3.2.1 The Constitution of the Republic of South Africa**

Section 217 of the Constitution (Republic of South Africa, 1999) is at the helm of the legislative regime for supply chain management and requires that “*when an organ of state contracts for goods or services ... it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective*”. The five principles of procurement provide for the normative framework with which the function has to be executed. Sections 217 (2) and (3) of the Constitution (Republic of South Africa, 1999)

support the use of public procurement as a means to advance previously disenfranchised groups. Key to this policy is the Preferential Procurement System which is enabled through the provisions of the Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South Africa, 2000) and its Regulations which prescribes the use of the preference points system on all public procurement transactions above the value of R30 000 (including all applicable taxes).

These policies are significant in that they are both established in the highest seated legislation, and that government has committed to use procurement as a lever to redress inequitable practices of the past. These socio-economic goals can come at a huge financial cost given that current legislation dictates that government is willing to pay a premium of 20% on all contracts awarded to previously disadvantaged groups up to the value of R1 million and 11% on awards above R1 million.

At the time of writing there were also draft Preferential Procurement Regulations (Republic of South Africa, 2016) which stipulates that government is intending to increase the threshold for the application of the 20% preference premium to R100 million. This decision was taken after major objections were raised against the initial draft which indicated that government was prepared to pay a premium of 100% for contracts to be awarded to wholly black-owned companies. As untenable as these proposed changes to the Preferential Procurement Regulations may be, there is a concerted drive to promulgate such changes in policy even though there is clearly no financial viability to the propositions.

It would be quite challenging to execute strategic sourcing under such prescribed conditions especially in view of the private sector's demonstrated savings through the introduction of a more rationalised and capable supply base. Policies such as Preferential Procurement would be found to be counter-intuitive to such an approach. More recently established companies from historically disadvantaged groups may not be as experienced and could potentially lead to more risk being passed on to government and even higher costs if there were to be supply failure. On the other hand it could also have a positive impact on the acceptance of strategic sourcing as increased pressure on goods and services budgets could lead to more concerted efforts to optimise procurement in order to offset the excessive premiums that government would be paying on many of its procurement contracts.

### 3.2.2 The Public Finance Management Act and its Regulations

The purpose of the Public Finance Management Act (Act 1 of 1999) (Republic of South Africa, 1999) is to modernise the financial management system being used in the public sector; enable public sector managers to manage whilst being accountable; ensure the timely provision of financial management related information and to eliminate waste and corruption in the use of government assets (Department of Premier, 2009:9).

The National Treasury Regulations (Republic of South Africa, 2003) enable the execution of the Public Finance Management Act where Regulation 16A6.5 determines that transversal term contracts (contracts established via the centralised procurement of common goods and services) may be facilitated by the relevant treasury, (National Treasury, 2015:49). Despite the fact that the provision actually endorses strategic sourcing principles it is anecdotally indicated that there are inherent inefficiencies in the execution of the transversal contracts which undermines the intended efficiencies. Centralised procurement will be increased by the National Treasury over the next few years but the approach does not work for all commodities as logistical and warehousing costs may actually drive up the total cost of ownership. Their approach also implies that the outcome of a strategic sourcing exercise should always be a transversal contract. This presupposes a particular procurement strategy, where alternatives such as the reduction or elimination of demand or the introduction of technology may actually have yielded greater savings for government.

### 3.2.3 General Procurement Guidelines

Guidelines for the interpretation of the pillars of procurement were issued by National Treasury as *General Procurement Guidelines* (National Treasury, 2003:1-8). These guidelines supported the introduction of supply chain management in 2003 and require that government procurement be executed in a manner that observes the five pillars of procurement. The five pillars of procurement are:

- Value for Money;
- Open and Effective Competition;
- Ethics and Fair Dealing;
- Accountability and Reporting; and
- Equity.

While all the pillars of procurement would impact strategic sourcing to some degree, only the pillars that are considered to have the largest impact are going to be discussed in the sections hereafter. The pillar of *value for money* is discussed first:

#### 3.2.3.1 *Value for Money*

The concept determines that price alone should not be the overriding factor to consider in procurement awards but rather the best value for money. Best *value for money* means, the best available outcome when all relevant costs and benefits over the procurement cycle are considered. The procurement function itself must also provide value for money and must be carried out in a cost-effective way. Although this principle is very much in sync with the *Total Cost of Ownership* (TCO) approach applied in strategic sourcing, there appears to be little evidence of its application in public procurement. It is not clear if this is due to a lack of guidance on how to apply this principle. The pillar of *open and effective competition* is discussed next (National Treasury, 2003:4).

#### 3.2.3.2 *Open and Effective Competition*

The principle requires that a framework of procurement policies, practices and procedures be put in place which is transparent and readily accessible to all parties; that there is transparency in the procurement process and effective use of competition where the market supports the procurement method (National Treasury, 2003:5).

Contrary to common understanding in the procurement fraternity, the pillar actually does not prohibit closed or limited procurement as long as a market analysis proves that this is the appropriate strategy. This could support strategic sourcing approaches such as strategic supplier relationships (*a closer, more collaborative relationship with key suppliers in order to uncover and realise new value and reduce risk*) but would also become difficult to execute in the absence of clear guidelines of endorsement from the National Treasury (Wikipedia, 2016:1). The pillar of *equity* is discussed next.

#### 3.2.3.3 *Equity*

The term *equity* in the context of the Guidelines means the application and observance of government policies which are designed to advance persons or categories of persons disadvantaged by unfair discrimination. It ensures that government is committed to economic growth by implementing measures to support industry, at large and especially to advance the development of Small, Medium and Micro-Enterprises

(SMME's) and Historically Disadvantaged Individuals (HDI's) (National Treasury, 2003:8) .

What has become evident in this section is that public procurement is significantly burdened by its two objectives of having to provide for service delivery in the most efficient, effective and economic manner and having to use procurement as a lever to redress the imbalances of the past. Obtaining a balance between the objectives is at the heart of what is constraining procurement from being equally efficient to its counterpart in the private sector. The socio-economic objectives imposed on public sector procurement could also vastly dilute the cost-saving benefits that are achievable through the application of strategic sourcing. The next three sections comprise a review of the current state of supply chain management as contained in the elements of *people*, *process* and *technology*.

### 3.3 THE PEOPLE CONTEXT

An overview of the *people* element is undertaken in order to assess the current levels of capacity within supply chain management and to reflect on the skills that are required to successfully execute strategic sourcing. Sun, Ren & Yeo (2015:1-6) indicate that the *people* element does not operate in a vacuum and that it is also a function of the culture, values and norms within an organisation which could either enable or inhibit a particular process. The literature proposes the following steps to create a strategic sourcing platform in the organisation:

- upgrade the skill and visibility of the procurement function;
- establish aggressive short-term and medium-term goals;
- launch via pilots to demonstrate the value; and
- make selective investments in technology (Laseter as cited in Yagoob & Ting, 2015:43).

### 3.3.1 Supply Chain Management Capacity

Supply chain management skill levels in the public sector are at present, lower than the levels of skill within the private sector. This could be attributable to the fact that government only invests 1% of the budget for compensation of employees in training and development whilst the private sector, in contrast, invests between 6-8% in resource development. National Treasury's own assessment of SCM capacity challenges revealed that the public sector had to compete with the private sector for the best skills, that SCM is not regarded as a strategic function in government and as such not appropriately skilled, that there is a reluctance to work in public sector procurement due to the negative image of the public sector as being fraught with corruption and that the organisational culture impeded the attraction and retention of the required skill sets as well as the development of career paths in SCM (National Treasury, 2015:52).

In a review of the procurement performance of 300 organisations, McKinsey and Group (Husted et al., 2009:2) found that the public sector lagged behind in all performance areas but more so in the areas of *mind-set and aspirations* and *talent management*. They have advised that government deal with this lack of procurement capacity by creating the capacity with a few high-performing individuals at the centre and then gradually replicating the skills throughout the organisation.

The existing skills set within public sector procurement emanated from the practice where the poorer performers within the Finance section were relegated to procurement. This has resulted in a task force comprising low-skilled individuals, a rule-driven culture, lack of initiative and innovation, lack of strategic skills, transactional and arms-length relationship management and little to no analytical application in the execution of the procurement function. Strategic sourcing on the other hand is a complex process that requires the application of sophisticated strategic sourcing tools and techniques (National Treasury, 2015:51-52).

A survey performed by NASPO (Amajor, 2014:17) revealed that the skills-set attributes required for strategic sourcing included detail-oriented, innovative thinkers; individuals with strong communication skills, strong analytical skills, who were able to think out of the box, had negotiation skills, stakeholder management skills, were adept at risk management and were able to compute total cost of ownership. These all

happen to be skills that are lacking in the current SCM workforce and the trend will most likely continue, according to Ernst & Young, who state that there is a mismatch between the supply and demand of high calibre procurement professionals and that this trend will continue into the future. They also indicate that procurement will become one of the most intellectually diverse functions and that the influx of statisticians, risk specialists and social scientists will bring new and innovative approaches to field of procurement (Costelloe & Evans, 2015:11).

Best practice in terms of strategic sourcing advocates the use of cross-functional teams which could be used as an interim solution to implement strategic sourcing in government. The establishment of a core team adept at the various skills-sets should be aspired to in the public sector, especially in view of the size of budgets in respect of goods, works and services which are currently estimated to be around R500 billion in South Africa (National Treasury, 2015:51-52).

It is concluded from the above that the current state of supply chain management is clearly not at the level that is required to competently execute strategic sourcing. National Treasury has begun to roll out courses on strategic sourcing via an external service provider and the material is also available via e-learning at the time of writing. However, having undergone two of the three modules myself, the level of adaptability to the Public Sector was very poor and the facilitator also could not make the practical linkages which detracted from the value of the course. There is a necessity for a School of Excellence to be established in government which is echoed by Ernst & Young who indicates that procurement skills be developed in-house and that coaching and mentoring be used to get officials to the requisite skill levels as opposed to competing with the private sector for the best procurement talent (Costelloe et al., 2015:11). The *process* context is covered in the next section.

### **3.4 THE PROCESS CONTEXT**

The strategic sourcing process requires a high degree of integration with other functional areas and collaboration with multiple stakeholders which is not the way in which processes are conventionally set up in the Public Sector. Strategic sourcing's approach of utilising cross-functional expertise violates the tenets of the hierarchical, stove-piped, rule-driven culture which epitomises the Weberian organisation (Yagoob & Ting, 2015:41). The procurement function's ability to transition to strategic sourcing



will therefore depend on the levels of collaboration and integration which in turn is found to be a function of the maturity of the business process. Business process maturity and how it relates to the Public Sector Financial Management Capability Maturity Model (FMCMM) will now be examined:

### **3.4.1 Process Maturity**

The concept of *process maturity* suggests that a process has a lifecycle that is assessed according to what is explicitly defined, managed, measured and controlled. Each level of maturity forms the foundation for the next level and progression through the stages occurs through a culture of continuous improvement (Lockamy III & McCormack, 2004:272-275; Miszczak, 2014:47). The different maturity stages in relation to supply chain management will now be unpacked:

#### *3.4.1.1 Ad Hoc Level*

At this level, supply chain practices are unstructured and ill defined. Jobs and organisational structures are not based on horizontal structures. Process measures are also not in place. Functional departments are focussed on improving their own processes and the use of resources whilst levels of cooperation and customer satisfaction are low (Sun, Ren & Yeo, 2015:3). The next level of maturity to be discussed, is the *defined* level.

#### *3.4.1.2 Defined Level*

Basic SCM processes are in place at this level and targets are defined although not yet achieved. There is no integration; supply chain costs remain high and customer satisfaction has improved but is still low. The *Linked* level of maturity is discussed next.

#### *3.4.1.3 Linked Level*

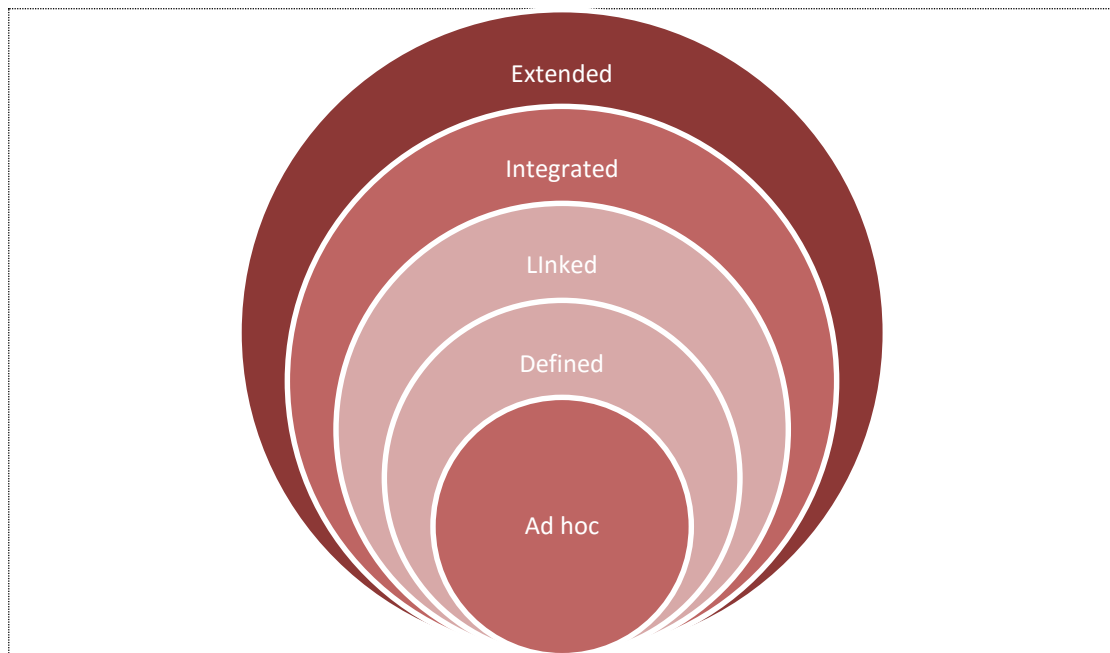
This is the breakthrough level for process maturity. SCM starts to be applied with strategic intent and jobs and structures go beyond the traditional functional boundaries. Collaboration is forged such as with cross-functional teams and continuous improvements address root causes in order to improve performance. SCM costs begin to decrease and customers are included in the process. The *integrated* level of maturity is discussed in the next section.

#### 3.4.1.4 *Integrated Level*

The organisation, its suppliers and customers take cooperation to the process level. Traditional structures disappear; advanced SCM practices such as collaborative forecasting and planning with customers take shape and process performance becomes predictable where targets are easily achieved. SCM costs are dramatically reduced and customer satisfaction becomes a competitive advantage. The *extended* level of maturity is covered hereafter which is the final maturity level to be discussed.

#### 3.4.1.5 *Extended Level*

At this level, a customer-centric, collaborative culture is firmly in place. Performance and reliability of the extended system are measured and joint improvements sought with suppliers.



**Figure 3.1: SCM Maturity Model**

Source: Adapted from Lockamy III & McCormack, 2004:276

The five stages of the maturity model reflect the progression of activities towards effective SCM and higher process maturity. The maturity model fundamentally demonstrates that the greater the maturity, the greater the performance will be in the organisation. The level of SCM maturity of public sector organisations could thus be used as an indicator of readiness for strategic sourcing. In addition, organisations at a

higher maturity level can be prioritised as pilot sites for the implementation of strategic sourcing. The Financial Management Capability Maturity Model is discussed in the next sub-section.

### 3.4.2 Financial Management Capability Maturity Model (FMCMM)

Whilst the afore-mentioned process maturity model was developed with the private sector in mind there is a level of alignment to the maturity model used in the public sector; namely, the FMCMM). Refer to Table 3.1 below for the FMCMM.

Table 3.1: Financial Management Capability Maturity Model

LEVEL		DESCRIPTION
6	OPTIMISING	Continuous learning and Improvement
5	MANAGED	Use of resources with effective results
4	INFORMATION	Measuring how resources are used
3	CONTROL <span style="border: 1px solid black; padding: 0 5px;">2.8</span>	Focus on Compliance and Control
2	DEVELOPMENT	Proper Internal control framework
1	START-UP	No proper internal control framework

Source: National Treasury, 2015:53

In terms of the FMCMM, the combined average maturity rating for provincial and national departments is currently at 2.8 out of 6. The rating is approximately at the compliance level (*Control Level* in terms of the FMCMM) whereas the aggregate financial management capability maturity rating for the Western Cape Government is currently 3.5 (out of 6) (National Treasury, 2015:53) .

A discussion on the *technology* element will be covered in the next section.

### **3.5 THE TECHNOLOGY CONTEXT**

Information and Communication Technologies (ICT) have the ability to re-engineer and optimise supply chain management processes whilst providing for real-time information to enhance management decision-making which is integral to the attainment of higher levels of financial management capability maturity. The real-time flow of information can also result in improved customer service, lower costs and better supplier relationships as ICT enables the sharing and coordination of information across increasingly large and complex supply chains.

### **3.6 SUMMARY AND DEDUCTIONS**

The chapter was commenced with an overview of the legislative environment which impacts strategic sourcing. It was established that legislation significantly impacts the manner in which procurement can be executed in the public sector and that procurement is used as a lever to effect varying and often competing political imperatives. These dynamics could constrain the ability of the public sector to achieve the same level of impact from strategic sourcing as its private sector counterpart has.

Existing SCM capacity was reviewed in terms of the elements of people, process and technology. It was determined that the skills required to execute strategic sourcing are vastly lacking in the current SCM workforce and that there is a need for government to establish a Procurement Centre of Excellence (PCE) to compensate for the existing gaps in capacity. The financial management capability maturity in the public sector, currently measures at the compliance level, whereas strategic sourcing requires that there be a progression to the performance levels of maturity as this is where a culture of integration, collaboration and continuous improvement becomes the order of the day.

The next chapter, deals with the theory surrounding the methodology of strategic sourcing.

## **CHAPTER 4:**

# **STRATEGIC SOURCING THEORETICAL FRAMEWORK**

### **4.1 INTRODUCTION**

The chapter deals with the theoretical framework of strategic sourcing. The evolution of the procurement function from a transactional to a strategic sourcing approach forms the point of departure where after the concept of *strategic sourcing* is defined followed by a step-by-step account of the strategic sourcing planning and execution process based on Laseter's Balanced Sourcing Model. Specific tools used in the various stages of the strategic sourcing process are briefly discussed and the chapter is concluded with a review of how cross-functional teams or commodity councils are utilised given their centrality to the execution of strategic sourcing. The information generated in this chapter will be used as a technical benchmark to assess the process followed by the Western Cape Provincial Treasury to execute strategic sourcing. A cursory overview of the evolution of the procurement function is provided for in the next section.

### **4.2 EVOLUTION OF PROCUREMENT**

The procurement function has historically been premised on the traditional approach to supply management, where the function was based on its "trouble avoidance" contribution to the organisation. Suppliers were kept at an arms-length distance from the organisation and the performance execution of the procurement function was based on reducing prices and maintaining a continuity in supply. The more recent emphasis on procurement transformation reflects a new approach to purchasing and procurement where the supply management focus requires that organisations adopt a more strategic orientation to their procurement function and assess how the overall process supports the organisation's competitive strategy (Tewfik, 2014:15, 21).

In the traditional approach to procurement, the relationship with suppliers is based on an adversarial approach whereas strategic supply management requires that an organisation becomes integrated with critical suppliers based on the pursuit of common goals. A major requirement for this transformation is the breaking down of

functional silos via the implementation of commodity teams or councils. Strategic sourcing is the most significant development that characterises this transformation in the procurement function. According to Duffie (2005:10) and Miszczak, (2014:10), the evolution towards strategic sourcing is not a fluid progression but rather a cyclical advancement in elements such as leadership and technology. As the procurement function matures, more time is spent on strategic functions with a corresponding reduction in administrative tasks.

Whilst Ambe (2009:132) lauds supply chain management as the vehicle to transform public sector procurement, little value add has been seen since 2003 when the reforms towards supply chain management were introduced in the public sector. This experience could be construed that supply chain management is not synonymous with strategic sourcing and that strategic sourcing should rather be seen as an approach towards supply chain management which hones in on specific value adding elements. By not having applied the approach of strategic sourcing to supply chain management, much of the value adding benefits have eluded the public sector. The concept of strategic sourcing will now be defined in the next section.

### **4.3 STRATEGIC SOURCING DEFINED**

To appropriately define the concept of strategic sourcing is critical, in that it will ensure that various parties embrace a uniform concept of this commercial best practice and that the public sector has the same basic understanding. The authors describe *strategic sourcing* as the process of crafting and organising networks of supply in line with the strategic and operational performance objectives of an organisation (Yagoob et al., (2015:40). The United States Office of Management and Budget (OMB) alternatively chose to define strategic sourcing as *the collaborative and structured process of critically analysing an organisation's spending and using this information to make business decisions about acquiring commodities more efficiently and effectively* (Johnson, 2005:1-2).

There are subtle differences or nuances to the definitions that the private and public sector use, according to Yagoob et al., (2015:40). Whilst the public sector mentions collaboration in their definition, this is rarely seen in practice as it is mostly encouraged but not entirely prescribed. The public sector definition also reverts to the comfort zone prescribed by Weber's call for strict, ordered rules. It is quite ironic that such

bureaucratic traits appear to be entrenched in the public sector's definition of strategic sourcing whereas the approach actually seeks a complete mind shift from the bureaucratic approach so endemic to government.

The definition proposed by Whittaker (2013:1), is that strategic sourcing is a comprehensive process aimed at extracting maximum advantage on cost, value, technology, process and quality by leveraging an organisation's buying power with selected suppliers, conducting best price evaluations, sourcing appropriately and conducting joint process improvements. According to Gartner (Else, 2002:33) strategic sourcing is *to “define, plan and manage how an enterprise deploys internal and external resources and services to ensure the continuous fulfilment of its business objectives”*.

The definitions similarly emphasise a planned process that is intended to optimise different levers with the aim of aligning procurement objectives to organisational objectives. It appears however to be silent on the “how to” elements, especially the elements of human resource capacity and technology. It does nonetheless confirm that the methodology of strategic sourcing is not synonymous with the current procurement practices in the Public Sector and in many ways will signify a paradigm shift for public sector institutions. The strategic sourcing execution process will now be discussed.

#### **4.4 STRATEGIC SOURCING PROCESS**

The strategic sourcing process can be implemented and executed among a variety of constructs most of which entail overlapping processes, steps, characteristics and traits all of which are aimed at delivering benefits detailed in the definitions noted above (Yagoob et al., 2015:41). The primary phases to accomplish strategic sourcing include an analysis of the expenditure, segmentation of the expenditure into various categories and creating an appropriate sourcing approach for each category. A benchmark model for the process is Laseter's Balanced Sourcing Model (LBSM). The model depicts a generic strategic sourcing process consisting of seven phases. Each of the phases will be discussed in the sections below:

#### **4.4.1 Spend Analysis**

A spend analysis signals the first phase in a series of analytics that is used to obtain a detailed understanding of the goods and services that are currently procured and that are forecast for future procurement. The analysis includes a TCO computation on the respective commodities under review as well as an analysis of end user requirements throughout the organisation. The tools used for spend analysis include a Pareto analysis and Kraljic Matrix which will now be explained:

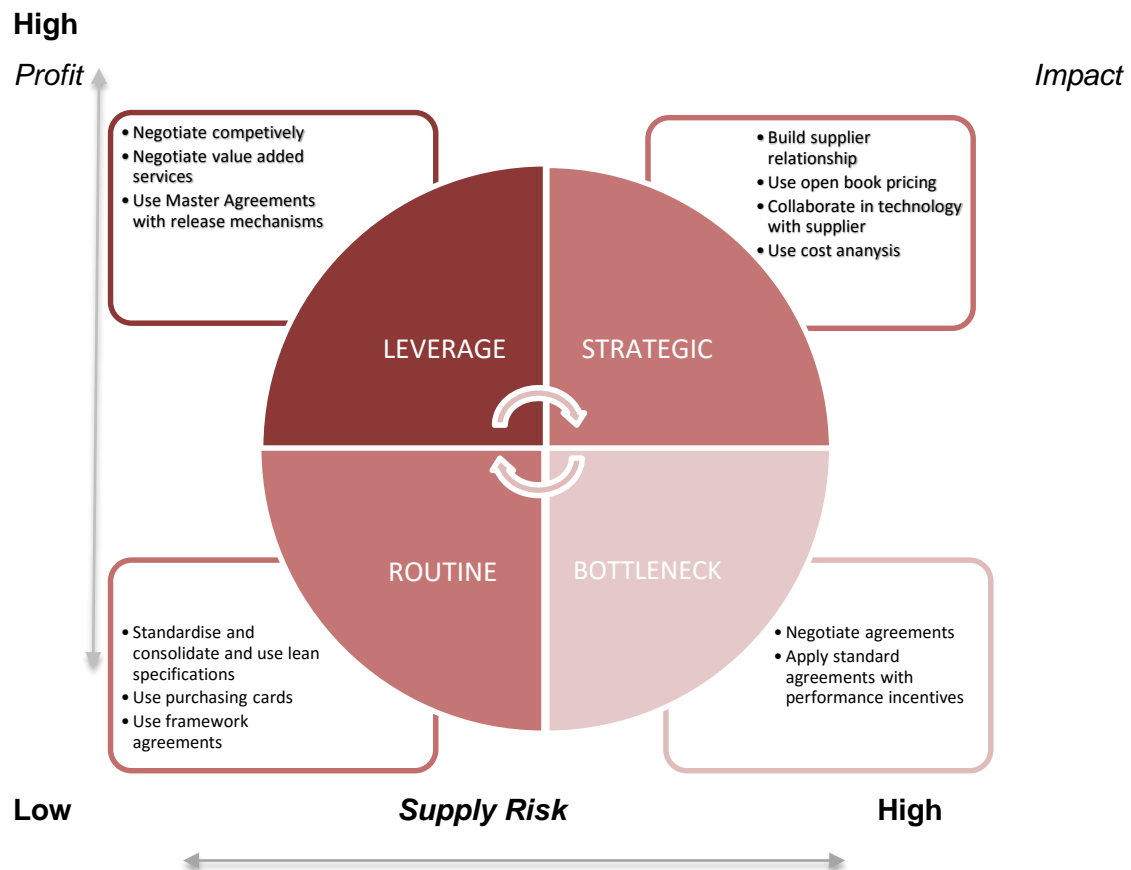
##### *4.4.1.1 Pareto Analysis (80:20 rule)*

The economist Vilfredo Pareto specified that there is an unequal relationship between inputs and outputs and that in most instances, 20% of invested input accounts for 80% of results obtained (Investopedia, 2015). In the strategic sourcing context, an analysis of spend will often reveal that 80% of spend is with 20% of suppliers or that 80% of transactions account for 20% of spend. The former would highlight that more strategic relationships need to be structured with the 20% of suppliers and the need for process efficiencies through the establishment of procurement instruments such as framework agreements would apply to the latter.

##### *4.4.1.2 Kraljic Matrix*

Peter Kraljic identified the significance of supply management as early as 1983 when he indicated that the greater the uncertainty of supplier relationships, technological impact and or physical availability of commodities the more critical supply management becomes (Kraljic, 1983:110-112). Figure 4.1 depicts Kraljic's matrix with some of the distinctive approaches toward supplier management specific to each quadrant.





**Figure 4.1: Kraljic Portfolio Purchasing Model**

Source: Adapted from Kraljic (1983:111)

In terms of the model (Kraljic's matrix) an organisation's supply strategy is dependent on two variables; the strategic importance of the goods/service and the complexity of the supply market. Kraljic's Matrix is applied in strategic sourcing by classifying the commodities in a procurement portfolio into the four quadrants as it relates to the two variables. The result is a classification system which renders items as either strategic, bottleneck, leverage or non-critical commodities where each classification will require a distinctive approach toward supplier management (Kraljic, 1983:110-112; Chaplain, 2013:12).

Authors such as Tewfik (2014:23) and Myers (2013:4) have highlighted that there are limitations to the application of the Kraljic Matrix, in view of its predisposition to the private sector's focus on cost. They indicate that there is a need for a bespoke

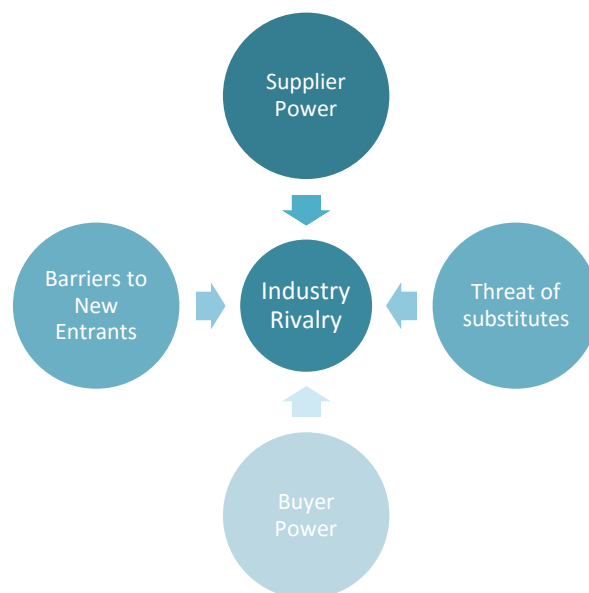
framework to evaluate strategic sourcing opportunities in the public sector as Kraljic's Matrix does not address all of the values of the public sector. Myers (2013: 13-14, 21) developed such an alternative model based on Value Focussed Thinking (VFT) where the entire spectrum of values relative to a decision are statistically aggregated to obtain a value score per alternative scenario. This provides for a basis of comparison which can be used to select the most attractive alternative. An assessment of the supply market is performed in the next phase.

#### 4.4.2 Market Analysis

Market analysis involves an in-depth analysis of a commodities' supply market. The market analysis (also referred to as an industry analysis) is facilitated by the use of the following tools:

- Porter's Five Forces Model;
- PESTEL (Political, Economic, Social, Technological, Environmental and Legal); and
- SWOT (Strengths, Weaknesses, Opportunities and Threats).

Two of the three tools indicated for market analysis will now be discussed.



**Figure 4.2: Porter's 5 Forces Model**

Source: Adapted from Porter (1980)

#### *4.4.2.1 Porter's Five Forces Model*

Porter's Five Forces Model is a tool used to determine where the balance of power lies in the market. The tool helps to predict supplier and buyer behaviour in the marketplace and is critical to the development of a supply strategy. According to the tool there are five forces that determine the level of competition and rivalry. The forces are supplier power, buyer power, competitive rivalry, threat of substitutes and threat of new entrants (New Zealand Government, 2011:27, 37). Each force will now be explained:

##### *a) Supplier Power*

You assess how easy it is for suppliers to drive up prices. Factors include the number of suppliers and the uniqueness of their product or service offering.

##### *b) Buyer Power*

The force assesses how easy it is for buyers to drive prices down. Factors include the number of buyers, the magnitude of the procurement and the cost of switching for the buyer.

##### *c) Competitive Rivalry*

The number and capability of suppliers are assessed. If there are many suppliers that all offer equally attractive goods/services, then suppliers have little power. On the other hand if there are few suppliers or a high degree of differentiation between goods/services, suppliers have more power.

##### *d) Threat of Substitution*

The force determines how easy it is for buyers to find alternative goods/services. If the goods/services are easily replicated there is a strong threat of substitution from other suppliers. This weakens the supplier's power.

##### *e) Threat of New Entry*

The ability of new suppliers to enter the market is assessed. The easier it is for new suppliers to enter the market the weaker the position of existing suppliers. PESTEL is the second tool that can be applied in market analysis and is discussed hereafter (New Zealand Government, 2011:27).

#### **4.4.2.2**      *PESTEL Analysis*

PESTEL is a mnemonic for Political, Economic, Social, Technological, Environmental and Legal aspects, which allow you to scan the broader environment for said factors that could impact procurement. Outputs from the market analysis phase are used in the strategy formulation stage where it could support negotiations and identify areas for supplier development (New Zealand Government, 2011:37). Cost/Performance analysis is covered in the next phase.

#### **4.4.3 Cost/Performance Analysis**

In this phase, the cost drivers of the goods and services being analysed are mapped. It is important to have an understanding of the cost drivers and performance metrics such as quality, level of technology, flexibility and timelines. In the case of goods one can map the manufacturing process, the technology options and the cost drivers (Laseter, as cited in Rendon, 2005:14; Tewfik, 2014:21). Supplier role analysis is discussed in the next phase.

#### **4.4.4 Supplier Role Analysis**

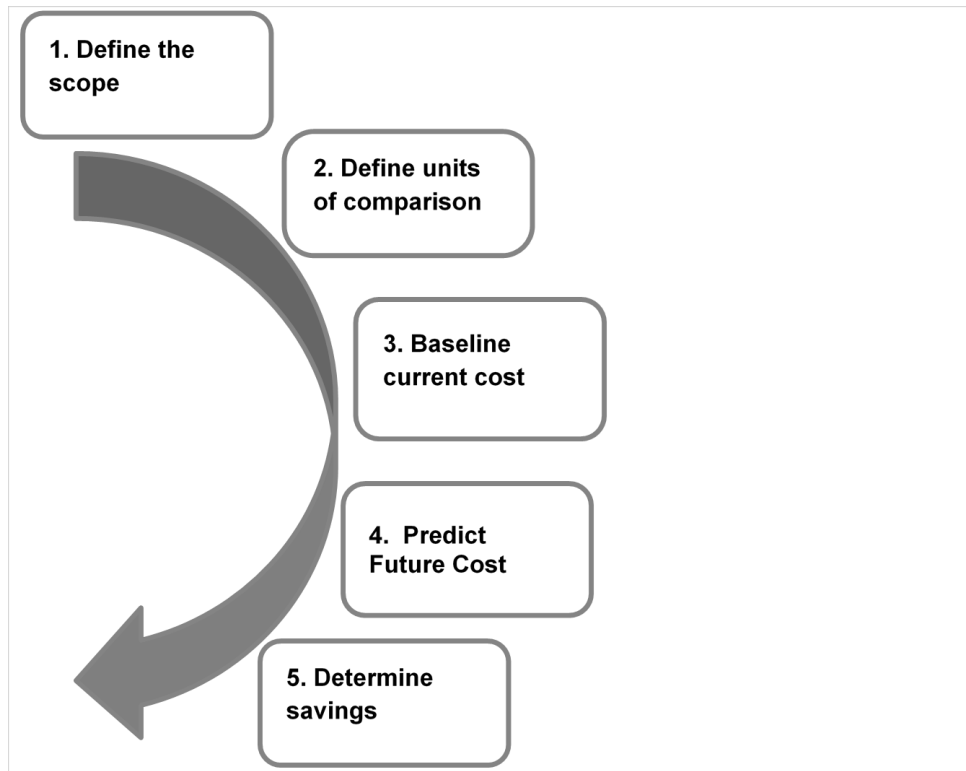
This phase of the commodity strategy process aims to align the goods and services to a set of differentiated supplier roles. It aims to determine which type of supplier is needed and their role in the supply management. It may involve differentiation by way of end-user requirement, sub-commodities or by stages of the product life cycle. Bespoke sourcing strategies could be developed for each category identified. A discussion on business process reintegration will comprise the next phase.

#### **4.4.5 Business Process Reintegration**

The intent with this phase is to use the analysis of the cost driver and supplier roles to realign the business process to reflect the desired integration with suppliers. This phase may prove to be challenging in the public sector as process integration with suppliers is not well understood or even considered as an efficiency lever. How to perform savings tracking is covered in the next phase (Laseter, as cited in Rendon, 2005:14; Tewfik, 2014:15-17, 21).

#### 4.4.6 Savings Quantification

The impact of savings or benefits can be twofold: budgetary (cash or hard benefits) or non-budgetary (non-cashable, intangible or soft benefits). The New Zealand Government has assessed various best practice models for benefits-tracking and have developed the following measurement process which is simple, robust and auditable (refer to Figure 4.3 below):



**Figure 4.3 Benefits Measurement Process**

Source: New Zealand Government, 2010:7

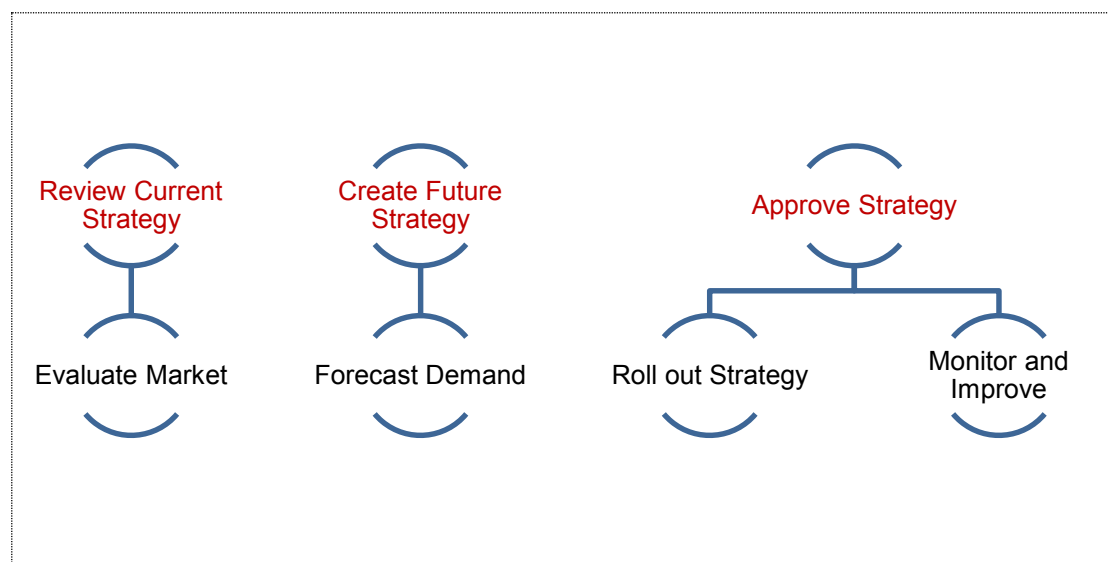
#### 4.4.7 Implementation

The concluding phase in the strategic sourcing planning process entails the translation of the planned strategy into a set of tasks that will achieve the savings objectives. Project management tools such as Gant charts, critical paths, network diagrams and work breakdown structures can be used to plan and monitor. Once the commodity plan is in place it has to be monitored on a continuous basis to ensure that the strategy remains effective and responsive to changes in the environment (Rendon, 2005:15;

Chaplain, 2013:6). In the next section it will detailed how commodity councils or cross functional teams are used in the execution of the strategic sourcing process.

## 4.5 COMMODITY COUNCILS (CROSS-FUNCTIONAL TEAMS)

Central to strategic sourcing's execution is a mechanism that facilitates the breaking down of functional silos which is critical to the strategic supply management transformation alluded to throughout this report. The establishment of a cross-functional team or commodity council as is interchangeably referred to in the literature provides for this mechanism. The commodity council process is depicted in Figure 4.4 below. (Reed et al., 2005:272-274)



**Figure 4.4 Commodity Council Operations Process**

Source: Adapted from Reed et al., (2005:274)

The commodity council process is based on a predominantly centralised approach to procurement. Cross-functional/commodity teams are for example, constituted of representatives from supply chain management, manufacturing engineering, product design and finance. The teams are responsible for the development of commodity strategies that are aligned to the organisation's objectives. (Reed et al., 2005: 272-273) The council is led and overseen by an executive steering committee which consists of an executive champion and commodity subject matter experts. The executive champion or commodity sponsor is usually given the responsibility for the enterprise-wide spend in order to ensure compliance with the strategy throughout the

enterprise. A Chief Procurement Officer (CPO) such as is now instituted at the National Treasury is indicated for the role of sponsor. The role of the sponsor is to champion the process and to be accountable for associated procurement compliance and strategy.

In the public sector it was found that working groups, comprising of buyers and other functional representatives, worked with the executive steering committee on a part-time basis to develop the commodity strategies (Tewfik, 2014:24-25). The private sector, as represented by best practice case studies from IBM, Cessna, Lucent Technologies and Deer and Company unanimously indicate that they have institutionalised commodity teams as permanent structures to ensure that there is a process of ongoing category management and savings derivation (Rendon, 2005:17-18; Tewfik, 2014:42-25).

#### **4.5.1 Sector Approaches to Commodity Councils**

Specific trends were noted by Reed et al., (2005, 281-287) in terms of how the private and public sectors institutionalised commodity teams. The differences between the sectors and what constituted better practices will be unpacked in the next few subsections.

##### *4.5.1.1 Job Functions*

It was found that in the private sector, the purchasing function became more strategically oriented with the introduction of commodity councils. Job descriptions were altered to include cross-functional experience, a solid understanding of the entire supply chain and experience in risk management. The public sector incorporated skills such as market research, acquisition strategy development, cost analysis, performance based service acquisition and market forecasting into the new job descriptions for commodity council members. Overall the private sector was found to be more aggressive in acquiring project managers and functional specialists to serve on these teams (Reed et al., 2005:281-2; Tewfik, 2014:27-32).

##### *4.5.1.2 Training*

The private sector introduced additional training for commodity council members which encompassed training on commodity purchasing, finance and supplier symposiums. The public sector introduced limited training which was mostly based on the commodity

council process and strategic sourcing. A significant difference between the sectors' approach was that the private sector placed a noteworthy effort on training its suppliers on the impact of strategic sourcing (Reed et al., 2005: 282). It would appear that strategic sourcing did not increase the levels of engagement that the public sector is willing to have with its supply base. Chan & Chin (2007:1406) claimed that managing and collaborating with suppliers early on in the process offers companies a competitive advantage. This competitive advantage ironically continues to elude the biggest procurer in most countries.

#### *4.5.1.3 Recruitment*

The private sector is indicated to not have experienced major changes in terms of staffing numbers even though there was evidence of less opportunity as a result of the establishment of framework contracts which apparently require less procurement expertise after the award phase. The public sector had the opposite experience, and recruited more staff to serve on commodity councils. In addition, management consultants were often used to assist with the development of commodity strategies in the public sector. The lack of flexibility to rotate staff between jobs proved to be a major barrier to the implementation of commodity teams in the public sector (Reed et al., 2005: 283).

#### *4.5.1.4 Reorganisation*

The private sector did not implement changes to their organisational structures with the introduction of commodity councils. Commodity councils directly reported to upper management in the private sector which facilitated executive buy-in to decision-making and improved coordination. The public sector similarly did not report significant structural reorganisation. The acquisition planning phase was separated from the contract monitoring and execution functions in the public sector where commodity strategies were centrally developed, but locally executed. Important differences between the sectors' approach included that the private sector was more successful in elevating procurement to the required strategic level whilst the public sector gave high-level visibility to its commodity councils but did not complement this with the required span of control and lines of authority. This resulted in lines of authority being muddled and functional stakeholders becoming unwilling to participate in the process (Reed et al., 2005: 284; Chaplain, 2013:6).



#### *4.5.1.5 Processes*

The private sector focussed on the establishment of alliances with strategic suppliers whilst the public sector's main goal was to leverage its buying power and to standardise on requirements. It was highlighted that the public sector should place more effort on the integration of other functional areas and suppliers in the commodity council process as a lack of early participation of stakeholders has the ability to significantly delay the implementation of strategies according to Reed et al., (2005:284-285) and Chaplain, (2013:6-8).

#### *4.5.1.6 Buy-in from stakeholders*

The private sector identified change management and the development of metrics as being critical factors for stakeholder buy-in. The issue of buy-in was found to be a challenge in the public sector. Procurement staff feared that they would lose their jobs due to increased centralisation of procurement, small businesses expressed concerns around the potential of being precluded from large transversal contracts whilst end users feared that the commodity council process would not provide for adequate flexibility and personal attention in requirements (Reed et al., 2005: 285).

The research on commodity teams highlighted specific challenges that were experienced by the public sector. To address these concerns, Reed et al., (2005:286-287) recommended that the public sector introduce new job descriptions for commodity councils. They also advised that a multi-skilling training program be implemented and to effect certain structural changes that would create more flexibility in job descriptions. In terms of managing stakeholder expectations, it was recommended that the public sector develop multiple strategies simultaneously to address the interests of the different stakeholders.

## **4.6 SUMMARY AND DEDUCTIONS**

It was established in this chapter that organisations that are stuck in the traditional approach to procurement would not be able to realise the benefits of strategic supply management. The procurement function must evolve from its traditional approach to create the necessary level of readiness for the implementation of strategic supply management. Strategic sourcing epitomises this transformation and is defined as a systematic process by which an organisation evaluates its expenditures, assesses

both internal and external influences, and determines the appropriate sourcing methods necessary to support overall organisational goals. LBSM was used to depict a generic step by step process for the execution of strategic sourcing. Various analytical tools support the process during the different stages and a discussion on these included the Pareto analysis, Kraljic Matrix, PESTEL and Porter's Five Forces Model.

Commodity councils or cross-functional teams were found to be central to the execution of strategic sourcing. The commodity council process is premised on aggregating buying power and achieving cost savings based on economies of scale, utilising market experts to formulate sourcing strategies and forming strong relationships with key suppliers. An overview of the operations of commodity councils highlighted specific challenges in the approach of the public sector. It was found the sector struggled to strategically elevate SCM and that the lines of authority were not appropriately established which ended up compromising decision making. There was no structural reorganisation of the procurement function to accommodate the new roles of strategic sourcing and it was noted that the reporting structure was not clearly defined. The public sector was also found to be less committed to obtain the specialised skills that were now required and rather opted to appoint management consultants.

Contrary to the private sector, there was no supplier involvement in the process of developing sourcing strategies and no supplier training provided. The capacitation of staff was geared towards the overall strategic sourcing process and lacked the necessary in depth training and application of how to apply the theory and interpret the results to inform the development of an appropriate sourcing strategy. The chapter was concluded with best practice recommendations for the public sector given the context specific challenges that were observed.

It is intended to use the contents of this chapter to assess how strategic sourcing was applied from a technical perspective and to formulate recommendations based on standard practices indicated thus far. This benchmark is built upon in the next chapter where a best practice case study from the private and public sector will be individually detailed.

## **CHAPTER 5:**

# **BEST PRACTICE CASE STUDIES IN STRATEGIC SOURCING**

### **5.1 INTRODUCTION**

The literature was reviewed with the aim of finding best practice case studies that could demonstrate what success looks like in the implementation of strategic sourcing. Two cases were selected based on the comprehensiveness of their approaches and being laudable examples of the implementation of strategic sourcing in their respective sectors. The Sasol case is a private sector example whilst the United States Federal Strategic Sourcing Initiative was chosen to reflect implementation in the public sector. The United States Federal Government started to implement strategic sourcing more than a decade ago, but despite the considerable span of implementation, challenges continue to be reflected in the literature. For this reason it is considered to be a good benchmark for the public sector implementation as similar challenges would most likely be mirrored in the WCG case. The Sasol case is now introduced in the next section below.

### **5.2 THE SASOL CASE**

The organisation embarked on the implementation of strategic sourcing during 1999, at which time it experienced financial pressures due to declining demand for oil at the time. Sasol sought proposals from management consultants on ways in which the organisation could reduce costs. A consultancy, McKinsey and Company, projected savings of between 5-10% of the expenditure which was premised on the methodology of strategic sourcing and specifically the application of the principles of TCO. Sasol had expenditure of approximately R8 billion at the time (1999-2000) and savings projected, would amount to between R400 and R800 million per year (Crafford, 2010:23). Sasol's implementation of strategic sourcing will now be discussed in terms of the criteria of leadership and vision, governance structures, capacitation and process followed.

### 5.2.1 Leadership and Vision

According to Crafford (2010:24) the Chief Executive Officer (CEO) spearheaded multiple engagements with the Executive Committee to achieve top management buy-in. A formal project was established for strategic sourcing once buy-in was obtained from top management. The various procurement business units in Sasol jointly developed a vision and purpose statement which was aligned to that of the organisation. The organisational vision entailed the following objectives:

- transform the procurement function to be on par with world class;
- institutionalise change in the manner in which materials and services were procured in the company;
- foster collaboration across teams; and
- improve the profitability of business units (Crafford, 2010:67-68).

It is noted that a significant financial investment was made in terms of the training of staff, hiring the requisite skill sets to the organisation, utilisation of management consultants, business process redesign and technology enhancements (Crafford, 2010:24). The significance of leadership and top management buy-in were repeatedly specified in the literature as being key success factors for the implementation of strategic sourcing (Duffie, 2005:13; Searle, 2006:13; Chartered Institute of Purchasing and Supply (CIPS), 2014:1-2).

Visionary leadership is the ability to create a realistic and achievable vision to improve performance where the vision must encompass the values and actions to effect the desired results (Chan et al., 2007:1393-1394). The authors also highlight that the leadership must commit the necessary resources and link the procurement to corporate strategies. To appropriately drive change in a procurement function, Accenture (2012:67-68) recommends a procurement governance model which includes the following six principles: *vision and purpose*, *sponsorship and mandate*, *leadership* via members, *process*, *structure* and *sustainability*. The Sasol case demonstrates how effective leadership and top management support can drive the necessary change in the organisation to successfully implement an approach such as strategic sourcing. The governance structures and oversight in the strategic sourcing process are discussed in the next sub-sections.

### 5.2.2 Governance

The strategic sourcing project was overseen by a steering committee which was chaired by the Group Executive of Sasol. A dual structure was established to execute the strategic sourcing process. The two teams were known as the *value team* and the *strategic sourcing team*, and were both accountable to the steering committee for the achievement of established targets.

The value team was a temporary team which was cross-functional and cross-divisional and was focussed on building a TCO model for a specific commodity. The team also had to develop a sourcing strategy for the commodity once a market analysis was completed. The value team (temporary team) developed their commodity strategies over a period of 14 weeks and once completed the results were handed over to the permanent strategic sourcing team to manage the commodity on an ongoing basis. It is indicated that the cross functional teams consisted of high level, highly paid specialists (Crafford, 2010:95). The strategic sourcing process structure is illustrated in Figure 5.1.



**Figure 5.1 Sasol Strategic Sourcing Teams and Process Structure**

Source: Crafford, 2010:25

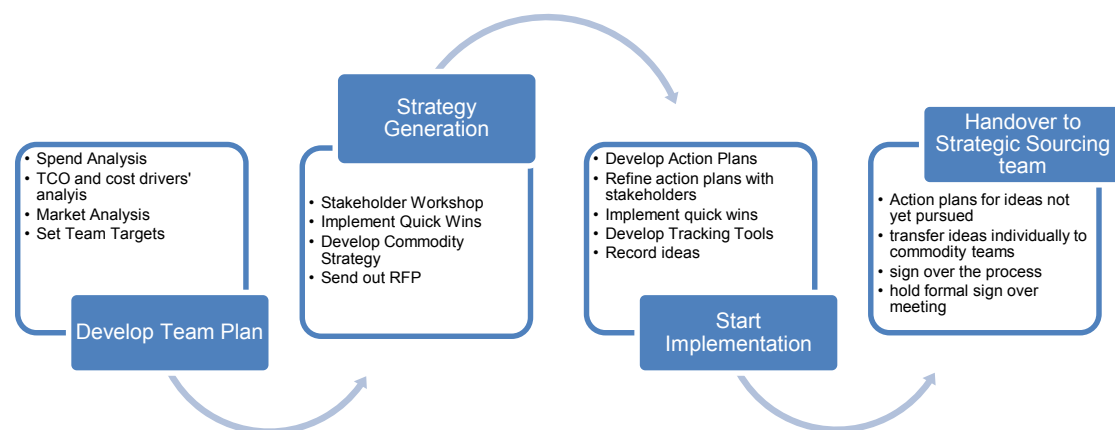
### 5.2.3 Strategic Sourcing Process

The strategic sourcing process was initiated with a spend analysis. The Pareto (80/20) principle was used to rank the commodities and in terms of this model the commodities that constituted the largest spend or were considered to be most strategic were prioritised for strategic sourcing. The development of the spend base was found to be a challenge as there was a lack of standardisation in the item descriptions across

the organisation. The organisation invested in a process of item standardisation across the financial systems. It was decided to standardise on the United Nations Standard Products and Services Code (UNSPSC) commodity classification system (Crafford, 2010: 26-27).

The project team and the consultants built a comprehensive spend base which identified how much Sasol spent on each commodity, what was bought and from whom. The Kraljic matrix was used to categorise the spend base and 100 commodities were identified for strategic sourcing. Value teams were established and organised into waves to address the commodities and the entire process took approximately five years to complete. Each of the commodities were assessed by the value team for a standard period of 14 weeks. The strategic sourcing process consisted of the following four phases which will now be explained:

- a) Building the fact base and setting of targets
- b) Development of ideas and strategy
- c) Implementation
- d) Handover to the strategic sourcing team.



**Figure 5.2: Strategic Sourcing Process followed by SASOL**

Source: Adapted from Crafford, 2010:27

*a) Develop Team Plan*

A portfolio was built around the spend patterns and various specifications of end users. Analytical tools included the use of spend and inventory analysis, supplier economics, industry cost curve analysis and TCO models. A key output from this stage is the development of a TCO model (Crafford, 2010:28).

*b) Develop ideas and sourcing strategy*

A rigorous analysis is performed during this phase to reduce the TCO model of the commodity. Ideas are obtained from suppliers, end users, industry experts and other stakeholders. A request for information is also sent to the market to gain further ideas. All the ideas are quantified and with inputs from the previous phase, used to draft sourcing strategies. The sourcing strategy is presented to a steering committee for formal approval. Sasol indicates the significance of end user support in the process and as such presents all ideas to end users for agreement and sign off (Crafford, 2010:28).

*c) Initiate implementation*

The phase is focussed on the development of an implementation plan with detailed actions and key performance indicators. Quick wins are immediately implemented.

*d) Handover*

During this phase, the strategic sourcing strategy and implementation plan is handed over to the permanently established strategic sourcing team to implement and track. The benefits plan is annually audited by external auditors which ensures credibility and accountability in the process. A formal handover meeting between the value team and the strategic sourcing team serves as an added governance measure (Crafford, 2010:23-29, 79).

From the above it appears that the strategic sourcing process followed by Sasol is in keeping with LBSM, explained in the previous Chapter under section 4.4. In addition, the case demonstrates many good governance practices that could be considered in the implementation of strategic sourcing. The Federal Strategic Sourcing initiative (FSSI) is discussed in the next section.

### **5.3 THE UNITED STATES FEDERAL STRATEGIC SOURCING INITIATIVE CASE**

The United States Federal Strategic Sourcing Initiative (FSSI) was introduced during November 2005 where all federal agencies were instructed to implement the new policy requirements around strategic sourcing. The policy issued by the Office of Management & Budget (Treasury equivalent in the United States of America) required that each federal agency implement their own strategic sourcing structure. It was subsequently decided that a more organised, systematic and collaborative approach to strategic sourcing across the entire federal government would be more appropriate as it would leverage both economies of scale and skill (Censeo Consulting Group, 2008:6). The experience of the United States Government with the implementation of strategic sourcing is covered under the next sections.

#### **5.3.1 Leadership and Vision**

The vision for the FSSI was to *“transform the US Federal procurement system from a transactional model to a strategic sourcing system that delivers value comparable with best in class private sector equivalents at each stage of the acquisition lifecycle”* (Censeo Consulting, 2008:14). According to CIPS (2014:4) every purchasing function should have a documented, regularly updated strategy which clearly indicates objectives and timeframes for achievement.

#### **5.3.2 Governance Structure**

The FSSI Governance Structure is depicted in Figure 5.3, below.





**Figure 5.3: FSSI Governance Structure**

Source: Censeo Consulting, 2008:14

The roles and responsibilities of each tier will now be explained:

#### *5.3.2.1 Office of the Federal Procurement Policy (OFPP)*

The unit provides strategic direction for the FSSI Program, enacts strategic sourcing policies, develops annual reporting requirements and monitors the performance of the commodity teams (Censeo Consulting Group, 2008:14-15).

#### *5.3.2.2 Chief Acquisition Officers Council (CAOC)*

Constituted of Chief Acquisition Officers (CAO) of each Federal Agency who are responsible for the approval of key recommendations raised by the Strategic Sourcing Working Group (SSWG).

#### *5.3.2.3 Strategic Sourcing Working Group (SSWG)*

The most senior level body engaged in the day to day strategic sourcing decision-making. They oversee and appoint commodity teams, review strategies developed by the teams and monitor the overall performance of the commodity teams.

#### *5.3.2.4 Commodity Teams*

The teams are cross-agency, reports to the steering committee and is responsible for the development of sourcing strategies. An Executive Sponsor Agency (ESA) leads the teams and a specialist is permanently assigned as commodity team lead. Commodity teams work on a part time basis according to the Censeo Consulting Group, (2008:18-19).

#### *5.3.2.5 Performance Management Group*

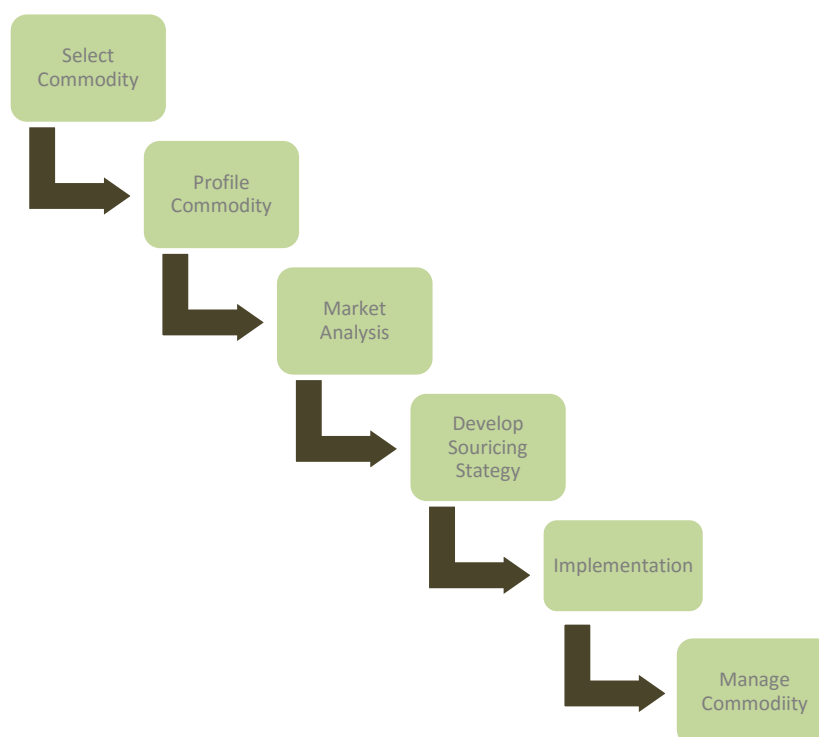
The performance monitoring group reports directly to the SSWG to ensure overall performance of the commodity teams regardless of the Executive Agency who leads the commodity (Censeo Consulting Group, 2008:21).

The governance structure indicated in the FSSI case is apparently well-constructed, yet there appears to be some challenges in the roll out of strategic sourcing in the United States Public Sector if one considers the amount of literature that point to weaknesses in the programme (Rendon, 2005:16-17; Miszczak, 2014:52; Tewfik, 2014:18-19 and Yagoob et al., 2015:43,45).

Critics of the FSSI structure point out that the CAO position is more powerful in title than in practice and that the position requires attention and power equal to that of the Chief Information Officer (CIO) or the Chief Financial Officer (CFO) (Falcone, 2010) For the same reason, Yagoob et al., (2015:43,45) assert that if the public sector empowered its CPO's to the same extent that the private sector did, significant traction would be made with the implementation of strategic sourcing. Their study has found that in practice, the federal government's approach to strategic sourcing involved the delegation of the task to subordinates which was in stark contrast to the approach seen in the private sector where there was dedicated leadership to ensure that the proper level of focus and energy supported the implementation of strategic sourcing (Yagoob et al., 2015:43, 45). The strategic sourcing process followed by FSSI is discussed next.

### 5.3.3 Strategic Sourcing Process

The different stages in the strategic sourcing process are depicted in the Figure 5.4, below.



**Figure 5.4 FSSI Strategic Sourcing Process**

Source: Censeo Consulting Group, 2008:24

The strategic sourcing process prescribed in the FSSI appear to mirror LBSM, but to a far lesser extent according to Yagoob et al., (2015:42). They argue that the FSSI process does not fully address the extensive detailed analysis of the LBSM which requires a greater depth of research and understanding of the business processes of both supplier and organisation and furthermore state that this type of analysis would require an advanced procurement skill set that would far exceed the existing capabilities in the public sector.

It is worth noting that the FSSI strategic sourcing model is currently being applied by the National Treasury in their centralised procurement strategy. The gaps that have been identified between the FSSI process and the private sector LBSM, could mean that the public sector approach to strategic sourcing may not yield the same results,

given that the level of detail in the process do not entirely match that of the private sector model.

Rendon (2005:15-16) noted that the Department of Defence experienced significant challenges on their spend analysis given the multitude of data sources, inconsistencies in item classifications, duplicate supplier data and dearth of qualified staff to execute data analysis. This notion was supported by Beardon & Morton, (2006:39) who confirmed that spend analysis was complex and labour intensive.

The impact of policy objectives and procurement legislation were also found to be limiting factors. Strategic sourcing has the potential to restrict competition and limit opportunities for small businesses as it promotes long term relationship with best in class suppliers and promote leveraging which would often be with larger businesses that has the capacity and capability to deliver at scalable levels.

Given the multitude of stakeholders and conflicting interests in the Public Sector context, delivering an optimised procurement solution would always prove to be challenging. It was furthermore found that in the case of the Department of Defence, the organisation could not evaluate and demonstrate the strategic sourcing “Return on Investment (ROI)” as it related to TCO savings, long term benefits achieved from standardisation on specification, support and maintenance and setting these off against the additional costs that relate to training and infrastructure for strategic sourcing (Rendon, 2005:16-17). It was indicated in the Sasol case that the ability to demonstrate savings or value added from strategic sourcing, boiled down to “Rands and cents” (Crafford, 2010:91) and as such the organisation placed significant effort in establishing a mechanism to track and report on benefits realised.

A set of key success factors can now be derived at, based on the literature encountered up to this point and learnings from the two case studies. These factors will be incorporated into the framework used to assess how strategic sourcing was implemented, which is going to be covered in Chapter 7 of this report. A summary of the key success factors for strategic sourcing serves as the conclusion to this chapter and will now be explored:

## 5.4 KEY SUCCESS FACTORS FOR STRATEGIC SOURCING

### 5.4.1 Vision and Purpose

The key success factor refers to the presence of a clear vision and strategy for the procurement function; sourcing objectives that are defined, monitored and measured. There should also be a clear alignment between the objectives of procurement and the objectives of the organisation (Chan et al., 2007:1393; Costelloe et al., 2012:10 & Accenture, 2012:68).

Both the Sasol and FSSI case articulated a clear vision for the implementation of strategic sourcing. The Sasol case demonstrated a process of actual monitoring towards the future state whilst the Department of the Defence, as an example of a FSSI implementation, lacked a credible process to measure the achievement of objectives.

Sasol demonstrated a culture of learning and adaption when they adjusted their approach by deregistering strategic sourcing as a project. This was a conscious decision on their part as they found that where strategic sourcing is seen as a project, all the value realised are eventually lost as the benefits have to be sustained through ongoing category management and the entrenchment of new business processes. They have advised that strategic sourcing be institutionalised as a way of managing procurement so that the organisation don't revert back to the transactional approach to procurement (Crafford, 2010:79-80). *Sponsorship and mandate* is the next key success factor that will be discussed.

### 5.4.2 Sponsorship and Mandate

The key success factor refers to a clearly identified executive sponsor and champion for strategic sourcing, whose task it is to establish goals, allocate resources and reduce barriers to the implementation of strategic sourcing. Accenture (2012:67) maintains that procurement success requires the appropriate senior level of sponsorship and engagement in the process and propose a governance model that consists of a procurement board that is representative of departments, policy makers (treasuries) and which is chaired by the sponsor which should be at CPO, level. This view is supported by CIPS who advocates the use of a Sourcing Board (CIPS, 2014:2) in the implementation of strategic sourcing. Chan et al.,(2007:1397-1398) are in concurrence

and state that the success of strategic sourcing is dependent on leadership being visible at the most senior level in the organisation; in order to drive the procurement strategy, champion the process across the organisation and dedicate the required resources and cross functional expertise to the process.

This key success factor was highlighted as being crucial in the experience of the Sasol case and found to be a critical shortcoming in the public sector's experience (Crafford, 2010:24; Beardon et al., 2006:39). Whereas the private sector was very successful in demonstrating the appropriate mandate and sponsorship for strategic sourcing, the same was not found in the public sector where strategic sourcing decisions had to be based on cooperative governance arrangements and where there was found to be a lack of policy to enforce the adoption of strategic sourcing outputs (Searle, 2006:26).

According to Rendon, (2005:17), commodity teams must be accountable for achieving sourcing goals and be given the authority to make decisions. The author expresses that in the absence of this authority, the commodity councils merely serve as committees that make hopeful recommendations. It is evident that a lack of clear leadership and accountability appear to undermine the success of strategic sourcing in the public sector. *Structure or governance* is the next key success factor that will be discussed.

### **5.4.3 Structure or Governance**

The use of cross-functional teams is considered to be a critical success factor for the implementation of commodity strategies. It is furthermore critical that the teams are constituted of appropriately trained and educated purchasing staff. Various functional representatives should also form part of these teams and it is imperative that end users and technical experts form part of the decision-making process. The appropriate constitution of teams is said to be as important for buy-in and collaboration (Rendon, 2005:17).

Accenture (2010:67) advocates senior level sponsorship and engagement at all stages of the planning, budgeting and procurement processes for a procurement strategy to succeed. In their view, category or commodity teams should report to procurement boards with a principal sponsor that is permanently assigned and reiterate that senior leadership in departments be used to champion strategic sourcing in the public sector.

The Sasol case demonstrated clear lines of authority and accountability in its governance structures where the strategic sourcing process was overseen by an executive steering committee, chaired by the Chief of Finance. The dual team structure that they use is also identified as a best practice that the public sector could replicate (Crafford, 2010: 25, 67-68). *Process governance* will be discussed as the next key success factor.

#### **5.4.4 Process Governance**

Process governance refers to a repeatable set of processes that enable the initiation, review, approval and monitoring of category specific initiatives. It is evident from the literature that strategic sourcing is based on a logical process that involves the application of various tools by skilled, competent and knowledgeable individuals. (Accenture, 2012:68; CIPS, 2014:2).

The use of spend analysis tools to facilitate various enquiries of spend data is a critical success factor according to Rendon (2005:17) and Tewfik, (2014:22). This is confirmed in the Sasol and Federal Sourcing Initiatives where LBSM was used with some variation. The Sasol case demonstrated clear governance in the execution of the strategic sourcing process where a repeatable process was documented; a reporting structure developed via the Executive Steering Committee and two teams established for the development and implementation of commodity strategies. The dual team structure is a very unique approach which makes for a best practice model. With their approach, skills are maximally leveraged by focussing the attention of the cross functional representatives on the development of the strategy on a full time basis for 14 weeks and then handing the strategy over for implementation to the strategic sourcing (procurement) team. A formal handover meeting is used as a mechanism to formally transfer roles and responsibility and furthermore ensures proper levels of accountability in the process (Crafford, 2010:25). The next key success factor that will be discussed is the *“people” or capacity* element.

#### 5.4.5 People (Capacity) element

It was noted in Chapter 3 of this report that the elements of *people*, *process* and *technology* are critical dimensions of a procurement standard and important drivers of change in the organisation. Sasol identified skills development as one of the building blocks of an effective procurement function. The organisation realised that in order to move a transaction based function to a world class strategic sourcing function; it had to invest substantially in the development of its people. In this regard, Sasol formed an alliance with the University of South Africa (UNISA) to develop a course for strategic sourcing. In addition, high level specialists were recruited to form part of the value teams (Crafford, 2010:24, 73).

According to CIPS (2014:1-2), strategic sourcing requires the application and interpretation of sophisticated tools and techniques by suitably competent professionals. The current lack of requisite skills in the public sector was highlighted in Chapter 3 as a potential constraint to the implementation of strategic sourcing. A lack of expertise is also noted to detract from the implementation in the FSSI case (Rendon, 2005:15-16; Beardon et al., 2006:39). The *tools/technology* element as a key success factor is covered next.

#### 5.4.6 Tools/Technology element

According to Chaplain (2013:7), the lack of clear guidance on metrics to measure success has negatively impacted the management of ongoing FSSI efforts. In the Sasol case it is noted how the organisation prioritised the development of their metrics and even developed their own TCO model and PCE to train on governance and procurement. It is also indicated that Specialist Commodity Indices (SCI) are maintained in order to provide monthly updates on the data that is used for cost driver analysis, price adjustments and benefits-tracking. The governance around benefits-tracking is noted to be particularly strict where savings are removed from budgets to demonstrate the full value of the benefit to the bottom line of the organisation, (Crafford, 2010:79, 103-108).

Accenture proposes that metrics be incorporated as a subset of the overall procurement strategy (2012:36). The New Zealand Government benefits-tracking model indicated in the previous chapter in paragraph 4.3.6 is a model which could



easily be replicated in the public sector. The final key success factor that will be discussed is a supplier management system.

#### **5.4.7 Supplier Management System**

The supplier management system refers to a systematic approach to managing suppliers by evaluating and selecting the right suppliers, collaborating with the best suppliers to improve procurement performance, developing suppliers through training and education to improve their capabilities and helping suppliers to improve their performance based on monitoring feedback (Chan et al., 2007:1405).

Given the public sector's traditional arm's length approach to supplier management, this key success factor could prove to be a challenge to execute in the public sector. According to Talluri et al., (2004:236-250) strategic sourcing decisions should not only focus on operational metrics such as cost, quality and delivery but also incorporate strategic dimensions and capabilities of suppliers. Their strategic sourcing framework explicitly proposes a model for the assessment of supplier performance which simultaneously considers supplier capabilities and performance in evaluating the efficiency of alternative suppliers and could be used as a methodology to prioritise suppliers for supplier management in the public sector.

It is intended for the contents of this chapter to inform the development of an evaluation framework that will be used to assess how strategic sourcing was implemented in WCG, which will be covered under Chapter 7 of this report. The Western Cape Provincial Treasury, Directorate: Provincial Government Supply Chain Management (implementer) is introduced in the next chapter.

# **CHAPTER 6:**

## **THE WESTERN CAPE TREASURY**

### **PROVINCIAL GOVERNMENT: SUPPLY CHAIN**

### **MANAGEMENT**

#### **6.1 INTRODUCTION**

The chapter introduces the Western Cape Treasury, Directorate Provincial Government: Supply Chain Management, responsible for the implementation of strategic sourcing in WCG. An overview of the unit's mandate and functions, organisational structure and capacity as it relates to the implementation of strategic sourcing will be conveyed. The chapter is concluded with a summary of the findings pertaining to the strategic sourcing readiness workshops performed by the Directorate during 2014.

#### **6.2 DIRECTORATE: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT**

The Directorate, is responsible for driving, assessing and assisting provincial institutions in the effective and efficient management of supply chain and movable asset management in terms of the PFMA. It includes enforcing good governance practices, compliance to policies and prescripts, ensuring data integrity and reporting through supply chain management systems and capacity building and training initiatives to improve supply chain management and movable asset management practices. Strategic procurement was introduced during 2013/14 as a means to improve efficiencies and value for money (Western Cape Treasury, 2014:45).

The Directorate is headed by a senior manager and two deputy directors. The strategic sourcing team consists of three assistant directors and one contract worker with partial involvement and oversight from middle management. A management consultancy was appointed to capacitate the strategic sourcing team over a period of three years. Job descriptions have been amended to incorporate strategic sourcing elements but

these form part of a collective of competencies for the Directorate and are not focussed on subspecialty areas. Three members of the strategic sourcing team have undergone national treasury endorsed training in strategic sourcing which encompassed a module on *how to conduct an initial assessment for strategic sourcing* and *how to develop a sourcing strategy* (National Treasury, 2013:5).

Strategic sourcing was introduced by the Treasury as a special project which was intended to be funded for three years from 2013/14 to 2017/18. This implies that even though it was indicated on the Annual Performance Plan (APP) for the Directorate it was not conceived as a permanent function for the Directorate, but rather as a medium term project. It was found in the Sasol case, which was discussed in Chapter 5, that where strategic sourcing is seen as a project all the value realised will be eventually lost as the benefits have to be sustained through ongoing category management and the entrenchment of new business processes. Sasol therefore deregistered their project and advised that strategic sourcing be institutionalised as a way of managing procurement so that the organisation did not revert back to the transactional approach to procurement (Crafford, 2010:79-80, 95). An overview of the strategic sourcing workshops that were implemented at the beginning of the Provincial Treasury's project is provided in the next section.

### **6.3 STRATEGIC SOURCING WORKSHOPS**

During the inception phase of the roll out of strategic sourcing it was realised that the maturity levels of departments played a critical role in the readiness for strategic sourcing. A series of workshops were hosted to have an open discussion around strategic sourcing goals, progress made with the implementation and to identify challenges that needed to be addressed. The workshops revealed that there was agreement that supply chain management needed to become more strategic in nature but that there were concerns around the level of readiness in the organisation and the lack of commitment from top management. Concerns raised were divided into themes which are listed below as per the priority allocated at the workshops:

- *Lack of understanding and buy-in for strategic sourcing;*
- *Lack of capacity and strategic nature of SCM in the organisation;*
- *Complexity due to legislation;*
- *Lack of systems, tools and data to support decision making and*
- *Lack of strategic sourcing framework and methodology.*

It was proposed by the management consultants, SA Strategic Sourcing, (SASS) that a change management program be implemented with working committees assigned to the main themes identified at the workshops. Figure 6.1 depicts the Change Management Framework proposed by SASS (2014:1).



**Figure 6.1 Strategic Sourcing Change Management Framework**

Source: SA Strategic Sourcing Consultants, 2014:1

The Change Management Framework (CMF) was unfortunately not implemented by the Provincial Treasury as it was thought to be a duplication of what was broadly envisaged by National Treasury and the Province in terms of the Modernisation of Supply Chain Management (SCM). It could however signal a lost opportunity in the implementation of strategic sourcing.

## 6.4 SUMMARY AND DEDUCTIONS

The Directorate, (Provincial Government Supply Chain Management, Western Cape Provincial Treasury) which is responsible for the implementation of strategic sourcing in WCG was introduced in this chapter. The unit's mandate was conveyed and the capacity of the team expressed in terms of strategic sourcing training undergone. It was found that most but not all the members of the strategic sourcing team were trained on strategic sourcing. There is also no dedicated middle to senior manager for strategic sourcing and it is noted that the implementation of strategic sourcing was

originally envisaged as a three year project. Both these factors have already been demonstrated in the literature as being limiting to the implementation of strategic sourcing. The literature and case studies highlight that direct oversight at the CPO-level is required for strategic sourcing to be a success whilst the Sasol case study raised concerns around implementing strategic sourcing as a project.

Treasury, supported by SASS, initiated a series of exploratory workshops to assess the level of strategic sourcing orientation in the organisation. The workshops attracted mostly SCM heads, some CFO's and one or two end users. The levels of enthusiasm were overall found to be quite positive and concerns raised were summarised according to themes to facilitate a change management framework. The themes identified included a *lack of understanding and buy-in for strategic sourcing; lack of capacity and strategic nature of SCM in the organisation; complexity brought on by legislation; lack of systems, tools and data to support decision making and a lack of strategic sourcing framework and methodology*. A CMF was proposed by the management consultants (SASS) but was not taken up by the Directorate which may signal a lost opportunity to properly embed strategic sourcing in WCG. It also highlights that projects which may involve significant change should have the requisite involvement from the drivers of Change Management (Organisational Behaviour) within the organisation in order to steer projects towards intended goals and objectives.

The research design and methodology is introduced in the next chapter.

## CHAPTER 7:

# RESEARCH DESIGN AND METHODOLOGY

### 7.1 INTRODUCTION

The chapter is commenced with an overview of the philosophical underpinnings of research design and methodology. The research process is covered by way of a discussion of the theoretical paradigms and perspectives, research strategies, sampling methods, data collection methods and analysis. A discussion on research philosophy is undertaken in the next section.

### 7.2 RESEARCH PHILOSOPHY

*Philosophy* refers to the abstract ideas and beliefs that inform our research. These beliefs are also referred to as paradigms and in qualitative research design there are four philosophical assumptions or paradigms which could guide or shape how the researcher formulates the research problem. These being *ontology* (the nature of reality), *epistemology* (what counts as knowledge and how it justified), *axiology* (the role of values in research), and *methodology* (process of research) (Creswell, 2013:18-19).

*Ontological* issues relate to the nature of reality and its characteristics where the researcher reports different perspectives as themes develop in the findings. With the *epistemological* assumption, the researcher becomes immersed in the study and tries to minimise the distance between themselves and the object of the study whereas with the *axiological* assumption, the researcher acknowledges that research is value-laden and that biases are present. The *methodological* assumption refers to the process of research and is characterised as being inductive, emerging and shaped by the researcher's experience in collecting and analysing the data (Creswell, 2013:20-22).

Philosophical assumptions are embedded in qualitative research by way of the interpretive frameworks or social science lens which researchers use. The following interpretive frameworks apply to qualitative research: *postpositivism*, *social*

*constructivism, transformative, post-modern perspectives, pragmatism, feminist theories, critical theory, queer theory and disability theory* (Creswell, 2013:36-38).

Qualitative research is said to concern levels of meaning and the development of explanations for social phenomena where the underlying belief is that meaning is situated in context and a particular perspective. From a philosophical or meta-science (*World 3*) perspective, qualitative research is rooted in the *Interpretivist* paradigm which holds that human beings have multiple realities which need to be understood in context and that no social explanation is complete unless it adequately describes the role of meaning in human actions (Le Roux, 2005:3-4). The *interpretivist* paradigm is indicated to generally lead to the use of qualitative research methods that enable the researcher to gain a descriptive analyses that emphasises deep, interpretive understandings of social phenomena (*World 2 - Verstehen*) (Le Roux, 2005:3-4).

According to Marshall & Rossman, (2016:101, 103), the strength of qualitative research is that it is useful for research that is exploratory or descriptive and that stresses the importance of context, setting and participants' frames of reference. As such the belief system of *social constructivism*; would apply to a case study design such as this study, whilst *pragmatism* apply in instances where case study research incorporate a mixed method approach (Creswell, 2013:28). A discussion on research design follows in the next section.

### **7.3 RESEARCH DESIGN**

*Research design* refers to the entire process of research from the point where the research problem is conceptualised, to formulating the research questions, to data collection, analysis, interpretation and reporting. It is the logical sequence that connects the empirical data to the research questions and ultimately to the conclusions (Creswell, 2013:5).

It is afforded by Mouton (2001:55) that the research design is a plan or blueprint of how the researcher intends to conduct the research. As such, the selection of a design should be the approach that would be best suited to answer the research question, i.e. *how well did the Provincial Treasury implement strategic sourcing in Western Cape Government?*

The non-empirical component of the study constituted a literature review. The themes included in the literature review were intended to frame the context within which strategic sourcing would unfold within the broader WCG environment and to provide the benchmarks to develop an evaluation framework against which to assess the implementation of strategic sourcing in WCG pilot departments. As such the themes encompassed:

- *Public sector reforms and the differences between the private and public sector procurement;*
- *The Supply Chain Management context in terms of policy, people, process and technology/tools ;*
- *Strategic sourcing theory, best practice case studies from the private and public sector and the establishment of key success factors for the implementation of strategic sourcing.*

The empirical aspect of the research was dealt with in the manner that is described in the next section.

## **7.4 RESEARCH STRATEGY**

### **7.4.1 Case Study**

The use of qualitative case studies is a well-established approach for studies that focus on closeness in the phenomenon through intense interactions that provide subjective understandings. Case studies favour intensity and depth as well as exploring the interaction between case and context (Marshall et al., 2016:19,101-103). The *strengths* of the design include a high construct validity; in-depth insights and rapport with research subjects. *Shortcomings* to the approach include a lack of generalisability of results, non-standardisation of measurement and that data collection could be time consuming according to Mouton (2001:150).

According to Creswell, (2013:98), the hallmark of a good case study is that it presents and in-depth understanding of the case which is usually achieved through the collection of multiple sources of data. Given this context it can therefore be construed why the researcher settled upon a qualitative case study design to evaluate how strategic sourcing was implemented in WCG. The modes of observation or research methodology will now be discussed.



## 7.5 RESEARCH METHODOLOGY

### 7.5.1 Sampling

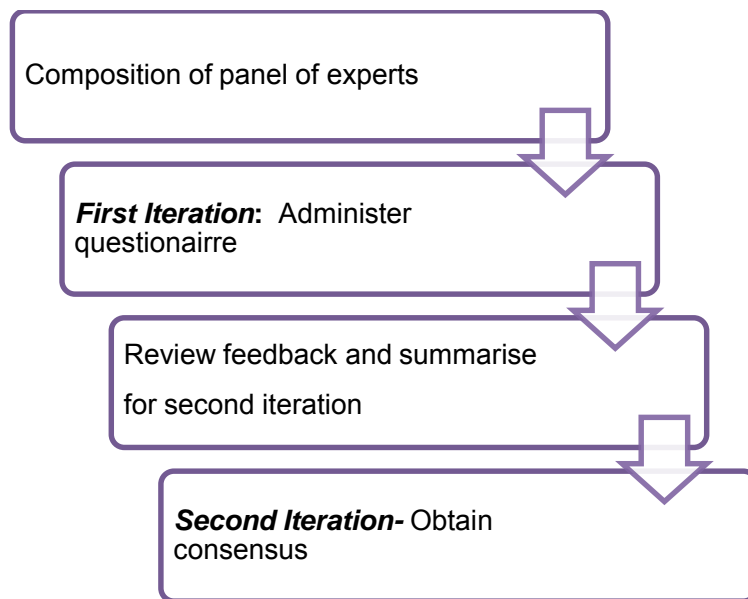
*Sampling* is the process whereby a researcher chooses a sample from the population to which the research apply. Two broad categories of sampling apply, these being *probability* and *non-probability sampling*. In the case of *probability sampling*, one can determine the probability that an element will be included whereas with *non-probability sampling*, one cannot specify the probability of inclusion (Welman, Kruger & Mitchell, 2005:52-56). Purposive sampling is one example of non-probability sampling, where the researcher selects individuals and sites for study because they can purposefully inform an understanding of the research problem and central phenomenon of the study (Creswell, 2013:299-300).

In this research, *non-probability sampling* was used to select a *purposive sample* from the Provincial Treasury Directorate that is responsible for the implementation of strategic sourcing and the management consultants which assisted with the implementation of strategic sourcing. It was originally envisaged that the pilot departments would be the “units of analysis” but this would not have appropriately addressed the research question and as such the process of implementation is the social intervention that was analysed. The Delphi Group Methodology is discussed next.

### 7.5.2 Delphi Group Methodology

The Delphi Group is a method of achieving consensual agreement among expert panellists through repeated iterations. The critical elements of the Delphi method are the identification of the panel of experts, the design of the set of questions and the summarisation of the individual input (Stewart, Shamdasani & Rook, 2007:153-161).

The Delphi Group methodology was used given its ability to provide informed consensus statements on matters of services’ provision obtained from expert panellists. Strategic sourcing is an area of expertise in procurement and it was thought that the evaluation would be enhanced through an iterative methodology that would provide for a steady gravitation towards a common position and set of recommendations for improvement (Bloor & Wood, 2006: 50). Refer to Figure 7.1 for an illustration of the Delphi approach.



**Figure 7.1: Delphi Technique**

Source: Adapted from Habibi, Sarafrazi & Izadyar, 2014:8

The main purpose of the Delphi method is to acquire the most reliable consensus of a group of experts. Various rounds or iterations are applied which could range between two to ten rounds according to Habibi, Sarafrazi & Izadyar, (2014:11).

For the study, two groups were established from the *purposive sample* and each group consisted of a maximum of five individuals. The Provincial Treasury strategic sourcing team and the management consultants constituted the two groups for the Delphi. A discussion on the data collection strategies is covered in the next sub-section.

### 7.5.3 Data Collection Strategy

Data collection involves more than the types of data to collect and the procedures involved in collecting the data. It involves permissions, a good sampling strategy, developing the means to record the information, storing the data and the anticipation of ethical issues (Creswell, 2013:145).

Pertaining to the Delphi study, data collection involved a first round iteration where the two groups of participants received an email with a link to an online survey tool (*instant.ly*). Each participant in the respective groups had to complete an online

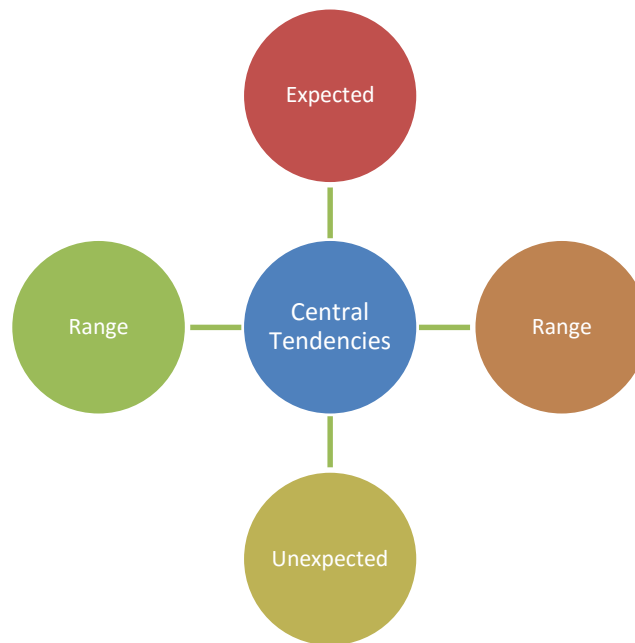
questionnaire which was prepared using a Likert-type scale denoted of themes of key success factors for strategic sourcing. A four point scale was used which ranged from strongly disagree; disagree; agree and strongly agree. The questionnaire is appended to this research paper as **Appendix A**.

Responses from the online questionnaire were collated to assess the level of consensus found across the themes in the questionnaire. This was followed by a second iteration which consisted of a brainstorming workshop that was held on 11 October 2016 for a period of 1-2 hours. The workshop was used to obtain consensus on the themes and or questions that did not reflect consensus. The platform was also used to obtain further expert views from the strategic sourcing management consultants. The approach to data analysis is discussed in the next section.

## **7.6 DATA ANALYSIS**

*Data analysis* involves the process of analysing text and image data, coding and organising themes, representing the data and forming an interpretation of the data. The process of *coding* involves aggregating the text or visual data into categories of information, seeking evidence for the code from different databases being used in the study and then assigning a label to the code. Coding reduces huge amounts of data into manageable and understandable text (Creswell, 2013:179, 184; Welman et al., 2005:213).

A useful framework to navigate qualitative data analysis is Chenail's Qualitative Matrix (Cole as cited in Le Roux, 2005:23-24). According to Evans, (2008:83) the matrix can help ensure that there is a relationship reflected between data presentation, data analysis and the literature review. See Figure 7.2 below for an adaptation of Chenail's Matrix (Cole, 1995:1-9).



**Figure 7.2 Chenail's Qualitative Matrix**

Source: Adapted from Cole, P. (1995:1-9)

In terms of the application of the matrix, data is formally coded by organising it in terms of the four concepts of central tendencies, ranges, expected and unexpected findings. *Expected findings* would confirm workshop/questionnaire consensus to the literature or how data chunks into common themes; *unexpected findings* demonstrate alternate/opposite views to current research or the literature; common themes indicate *central tendencies* whereas *ranges* allow for disparity within identified themes (Cole, 1995:1-9). Data Control is discussed hereafter.

## 7.7 DATA CONTROL TECHNIQUES

*Reliability* and *validity* are important issues in research according to Le Roux (2005:30-31). The author indicates that even though these terms were rooted in the quantitative or positivist approach, they have to be redesigned for use in qualitative research. *Reliability* relates to being able to demonstrate that the methods used are reproducible and consistent whereas *validity* refers to the extent to which an account fairly represents the data collected (Le Roux, 2005:30-31).

The author specifies that *reliability* and *validity* can be increased by appropriately describing the approach to and procedures for data analysis and referring to other work to test conclusions from the data analysis. Application of triangulation (gathering data from multiple sources) is also indicated to increase the level of rigour in case studies. Le Roux (2005:25) posits that there is no one right way of coding qualitative data given that the analysis should be seen as “intellectual craftsmanship”.

*Bias* is indicated to be the most serious difficulty with the Delphi technique and careful group analysis was used to ensure that all shades of expert opinions were represented. It is advised by Bloor et al., (2006:50), that it should be guarded against to not frame consensus statements in relatively abstract terms, in order to mask statements of disagreement as this kind of consensus would be illusionary and would not have the necessary impact on improving the practices that are assessed.

## 7.8 SUMMARY AND DEDUCTIONS

The chapter provided an overview of the research design and methodology that was followed in order to address the research objectives. A qualitative case study design approach was undertaken as it allowed the researcher the benefit of descriptive analyses that would facilitate a deep, interpretive understanding of the social phenomenon being studied. The primary mode of observation was a Delphi Group Methodology given its ability to provide informed consensus on a specialist area such as strategic sourcing. Two groups of experts were engaged being that of the strategic sourcing team from the Provincial Treasury and the management consultants supporting the Treasury in the implementation of strategic sourcing in WCG. The Delphi Method involved a two-stage iteration which consisted of an on-line, self-administered questionnaire framed by the key success areas identified for strategic sourcing in Chapter 5. The second iteration consisted of a brainstorming session with the two groups in order to obtain consensus and expert recommendations to improve on the implementation of strategic sourcing. The findings from the empirical research will be discussed in the next chapter.

## CHAPTER 8:

# RESEARCH FINDINGS

### 8.1 INTRODUCTION

The empirical research approach, communicated in Chapter 7, was primarily aimed at addressing the second research objective, which was *to evaluate how strategic sourcing was implemented by the Provincial Treasury in pilot departments*. As such, the findings from the empirical research will be summarised at the outset of the chapter, where after a discussion will be had on the findings of the research and the context provided by the literature as was captured in Chapter 2-5 of this study. The findings from the documentary review and analysis is discussed in the next section where after the online questionnaire will be discussed.

### 8.2 DOCUMENTARY EVIDENCE AND ANALYSIS

The elements of *people*, *process* and *technology* were alluded to in chapter 3 of the study. Documentary evidence revealed certain findings in terms of these elements which are now going to be discussed in the sections hereafter:

#### 8.2.1 Process Maturity

It was found that, whilst the FMCMM rating of the WCG is slightly higher than the national average, it is still not at the required level, being the *information level (linked level)* in terms of the Lockamy & McCormack model), which is where a breakthrough is made to the performance level. The maturity ratings confirm that public procurement has not progressed to the desired levels of economy, efficiency and effectiveness as was intended with the procurement reforms. It also indicates that the level of readiness for strategic sourcing may not be present given that the methodology requires integration, collaboration and the pursuit of continuous improvement which are synonymous with higher levels of maturity (National Treasury, 2015:53).

### 8.2.2 Technology

At present, SCM is supported by a range of ICT systems which vary in functionality, scope and efficiency. There are currently 36 different SCM solutions in use across government whilst 45% of SCM-related activities are still performed outside of these systems and thus manually Monczka et al., (2011:22). The spread of data across various systems means that government does not have a single holistic view of its data. The Integrated Financial Management System (IFMS) is intended to be government's Enterprise Resource Planning (ERP) solution but to date has not materialised and it seems from recent engagements with National Treasury that government is considering Commercial-Off-The-Shelf (COTS) software which could require lots of middleware to allow communication between the modules

Technology is indicated to be a key enabler of efficiency drives and as such must be used to enhance the position of public sector organisations and more importantly support the people and process elements. Currently this is not possible due to a myriad of disparate legacy systems that do not communicate with each other and make it cumbersome and costly to create consolidated financial data views. The intended COTS approach to the implementation of the IFMS would not be the most efficient manner to establish an ERP in an organisation the size of government and using multiple vendors could translate into a complex and costly project (National Treasury, 2015: 36-65).

It was found that the WCG is currently developing a Business Intelligence Solution which will be supported by a consolidated finance data warehouse consisting of data extracted from the various legacy systems. This has however not been an easy task and the project has been quite slow in its delivery. A positive development from this project was that the strategic sourcing data analysts were granted access to use the information in the data warehouse to build spend views which has helped enormously to create awareness around the use of spend data and how it can serve the strategic sourcing process.

It was found that there are significant gaps in spend data given the disparity of financial systems and lack of common identifier across systems. Supplier details are often duplicated due to varying input errors whilst the accounting -based item-classification system, namely the Standard Chart of Accounts (SCOA), is not ideal for commodity

classification purposes. The data was nonetheless of sufficient quality to enable the analysis of the spend data. WCG makes use of an electronic procurement system from Ariba SAP for all the procurement below R500 000. However the particular version of the e-sourcing module is not entirely customisable. Modules that are critical for supplier and contract management have not been procured at this stage due to the uncertainty around the delivery of the IFMS. As such, the full spectrum of benefits available from an end-to-end electronic procurement solution are not being leveraged. It also implies that there is no electronic mechanism in place to track and monitor supplier performance which is a critical element of strategic sourcing (National Treasury, 2015:36-65).

### 8.3 FINDINGS FROM THE ONLINE QUESTIONNAIRE

The following key success areas were assessed via the self-administered online questionnaire:

- Visionary leadership
- Organisational structure
- People element
- Strategic sourcing process
- Technology
- Supplier management system.

To convey the responses from the questionnaire in a succinct manner, stacked bar graphs were used to provide an overview of the responses obtained under each of the key success areas expressed above. In addition there was application of Chenail's Matrix criteria where key success areas, constituted themes or *central tendencies* and *expected* and *unexpected findings* were applied as per the criteria outlined in the previous chapter. A summary of the findings is provided in the next few sub-sections.



### 8.3.1 Visionary Leadership



**Figure: 8.1 Questionnaire Feedback on Visionary Leadership**

#### Expected findings

*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data converge into common themes.*

The majority of respondents indicated that strategic sourcing formed part of the WCG Strategy but that there was a lack of defined objectives for strategic sourcing. It was uniformly indicated that there is no involvement from Top Management in the implementation of strategic sourcing. Whereas it was indicated by most that there is a CPO in WCG, the role of CPO was assumed to equate to that of the Head: Asset Management.

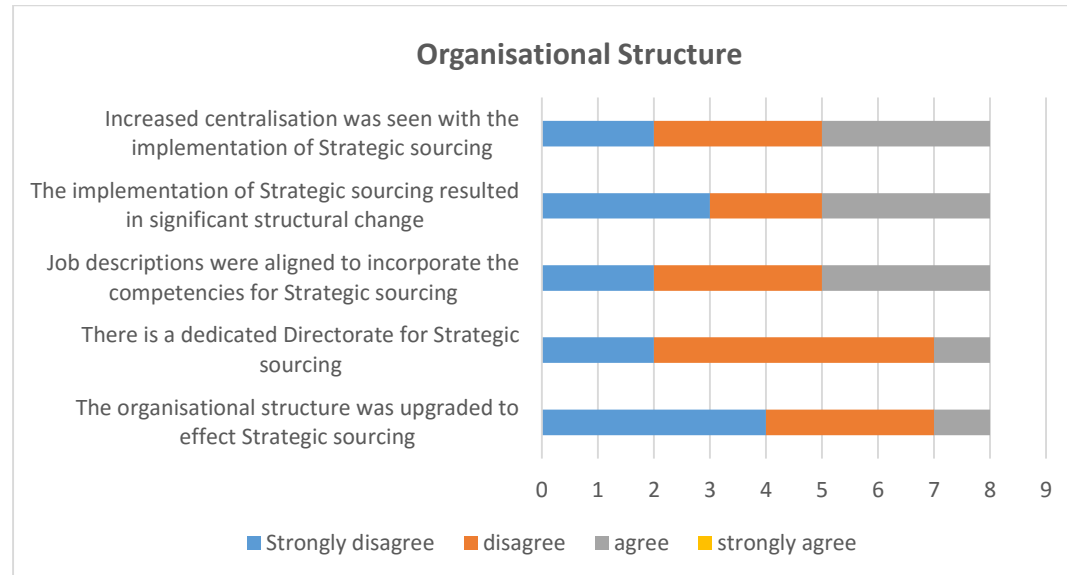
#### Unexpected findings

*These findings would demonstrate alternative/ opposite views to current research or the literature.*

It was predominantly found that cross-functional teams did not have the appropriate representation from departments and that there was no organisation-wide committee to oversee the implementation of strategic sourcing.

Lack of consensus

There was no consensus on whether procurement leaders were involved in the strategic sourcing process.

**8.3.2 Organisational Structure**

**Figure 8.2 Questionnaire Feedback for Organisational Structure**

Expected findings

*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data converge into common themes.*

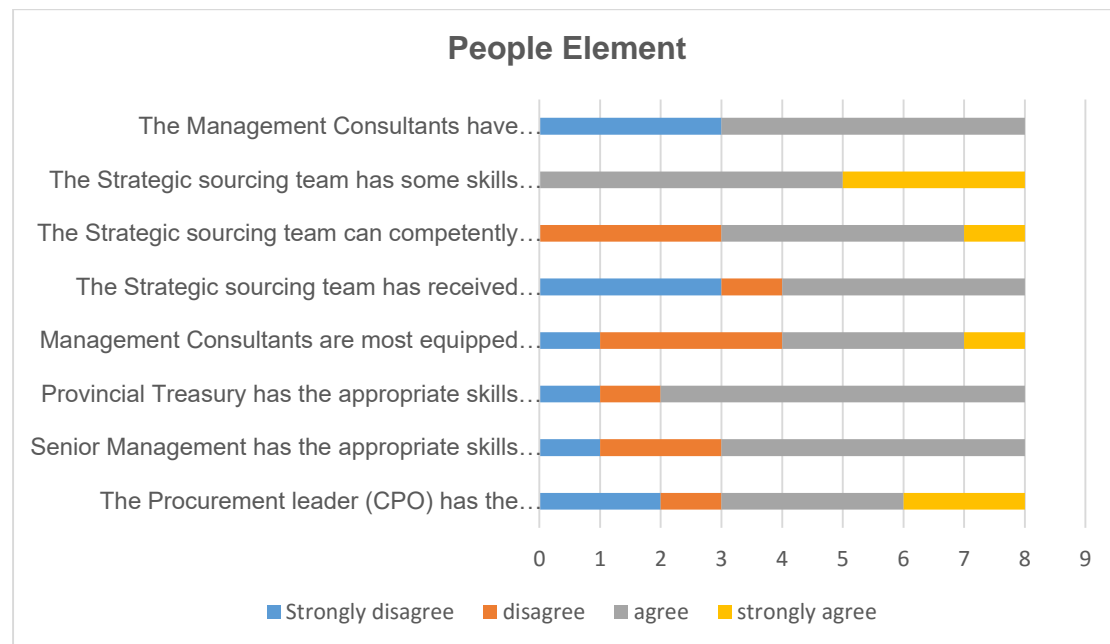
The majority of those that responded to this area indicated that there was no reorganisation within the Directorate to incorporate strategic sourcing and that job descriptions were not amended to include the competencies required for strategic sourcing. There was also no dedicated Directorate for strategic sourcing.

Unexpected findings

*These findings would demonstrate alternative/opposite views to current research or the literature.*

There was no increased centralisation seen with the implementation of strategic sourcing, according to most respondents.

### 8.3.3 People Element



**Figure 8.3 Questionnaire Feedback on the People Element**

#### Expected findings

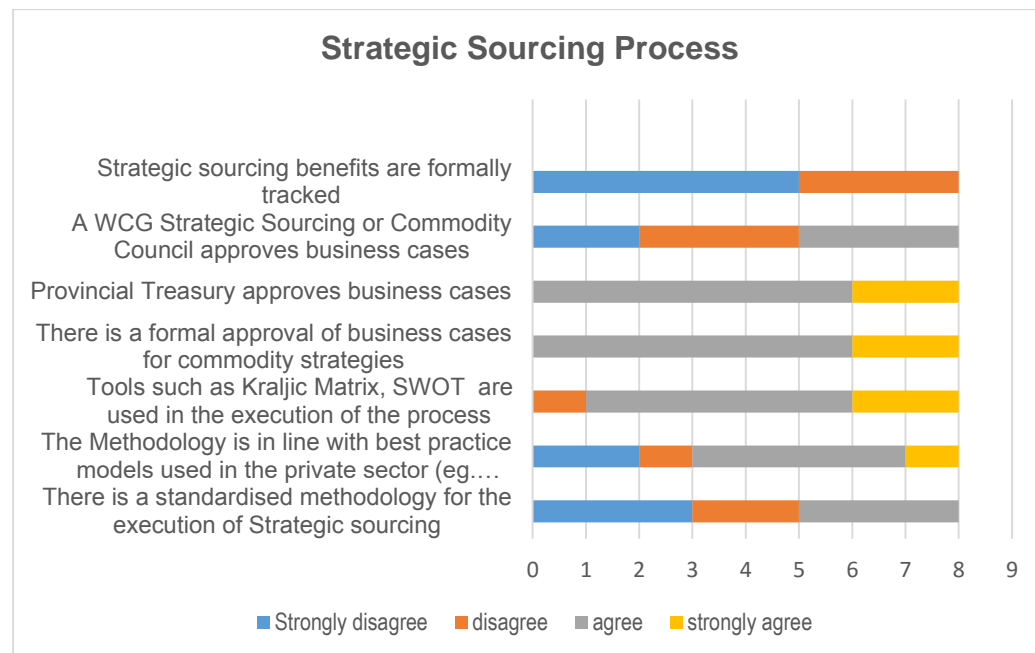
*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data converge into common themes.*

There was strong agreement that senior management had the appropriate skills to drive strategic sourcing and that the strategic sourcing team could execute the methodology. There was however found to be a contradiction in the responses as it was also unanimously indicated that the strategic sourcing team had skills gaps.

#### Lack of consensus

There was no clear direction on whether the strategic sourcing teams were adequately trained.

### 8.3.4 Strategic Sourcing Process



**Figure 8.4 Questionnaire Feedback on Strategic Sourcing Process**

#### Expected findings

*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data converge into common themes.*

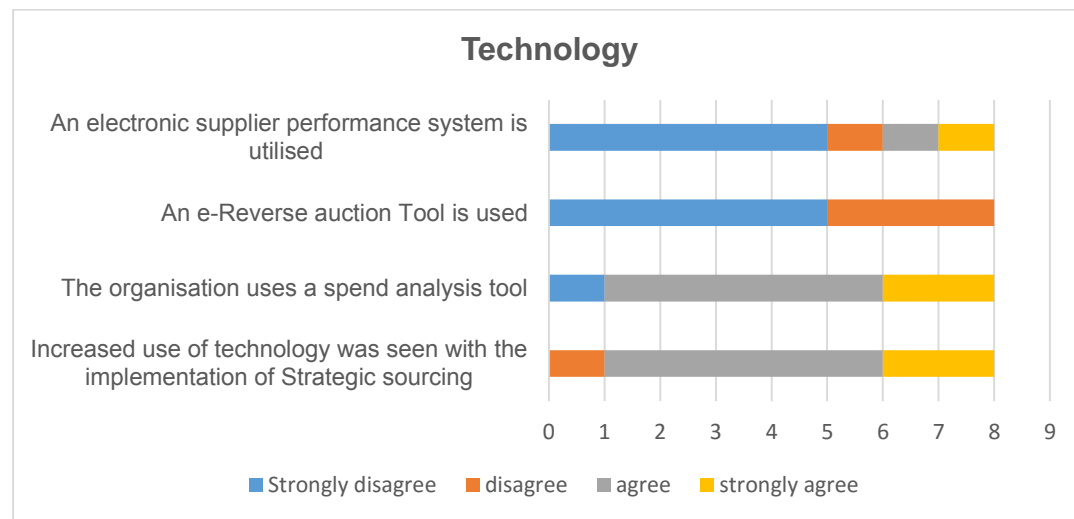
There was found to be no standardised approach/methodology used in the execution of strategic sourcing but that the methods applied by the Provincial Treasury conformed to best practices. In similar vein it was expressed that the tools prescribed for strategic sourcing were used in WCG's process. It was overall expressed that there was no benefits-tracking mechanism in place.

#### Unexpected findings

*These findings would demonstrate alternative/opposite views to current research or the literature.*

The majority indicated that the Provincial Treasury, as opposed to departments, approved commodity business cases. It was also found that there was no WCG cross-functional steering committee to oversee commodity strategy development.

### 8.3.5 Technology



**Figure 8.5 Questionnaire Feedback on Technology**

#### Expected findings

*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data chunk into common themes.*

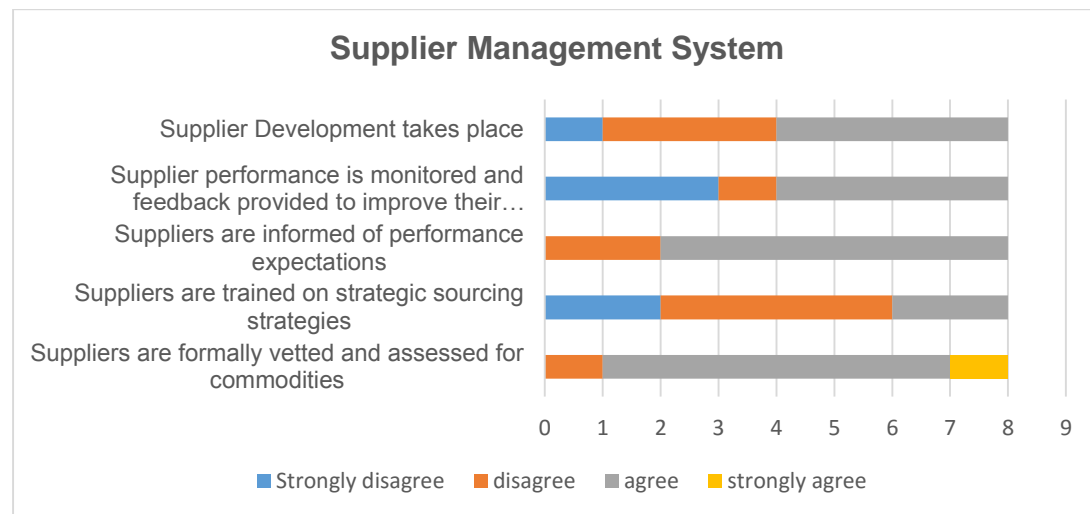
The respondents were in agreement that the implementation of strategic sourcing had resulted in increased use of technology and a spend analysis tool.

#### Unexpected findings

*These findings would demonstrate alternative/opposite views to current research or the literature.*

It was found that there was no reverse auction tool being used and that there was no tool to monitor supplier performance.

### 8.3.6 Supplier Management System



**Figure 8.6 Questionnaire Feedback on Supplier Management System**

#### Expected findings

*In terms of Chenail's Matrix, these findings confirm the trends in literature or how data chunk into common themes.*

It was predominantly indicated that suppliers were not trained on strategic sourcing.

#### Unexpected findings

*These findings would demonstrate alternate/opposite views to current research or the literature.*

It was found that there is no formal vetting and accreditation of key suppliers.

#### Lack of consensus

There was no consensus on whether suppliers were being developed and if there was a performance monitoring and feedback mechanism in place to manage suppliers. A brainstorming session formed the basis of the second iteration of the Delphi Group method. The findings from this session are now going to be discussed.

## **8.4 BRAINSTORMING WORKSHOP FINDINGS**

Whilst the objective of the brainstorming workshop was to primarily address areas where there were found to be a lack of consensus in the questionnaire stage, additional feedback on gaps identified in the implementation of strategic sourcing, were also solicited during the session. The key points from the discussion are summarised in the sections below:

### **8.4.1 Visionary Leadership**

The management consultants expressed that the equivalent of a CPO in WCG, being the Head: Asset Management was not established at the correct level in the Organisation. In their opinion, based on other projects in strategic sourcing, the CPO or someone in a similar role should not report on a specific function but rather directly to the Head of the Organisation.

### **8.4.2 Organisational Structure**

The Provincial Treasury strategic sourcing team expressed the need for a dedicated function or Directorate for strategic sourcing as was the case in the Department of Health. This was stated in the context that the compliance role of the Directorate was found to be in conflict with the role that was required of strategic sourcing. A compliancy focus was indicated to inhibit the innovative culture sought by strategic sourcing.

The management consultants noted that the Head: Asset Management's role in the Organisation did not incorporate any of the requirements of strategic sourcing. This misalignment was posited to be one of the reasons why the function received so little priority in the organisation. The strategic sourcing team averred that management did not fully comprehend strategic sourcing and that there was no real guidance provided with regards to the daily execution of strategic sourcing.

It was noted by the management consultants that "bits and pieces" of strategic sourcing were seen but that there was no real drive in terms of a full-scale implementation of strategic sourcing. They also felt that resources were not prioritised for strategic sourcing which was usually indicated to be the norm in the private sector. In their opinion, the Provincial Treasury should not lead strategic sourcing but rather play a

facilitation role where the departments are allowed to drive sourcing strategies given their knowledge on commodities.

In terms of organisational structure, the consultants were of the view that it would not be prudent to have a large strategic sourcing structure in the Provincial Treasury but that a co-opted model be used where technical experts from departments lead the process. They advanced a model of centralised coordination and decentralised execution.

#### **8.4.3 People Element**

The strategic sourcing team indicated that they had to execute numerous other tasks in addition to strategic sourcing which detracted from the function. This view was supported by the management consultants who stated that experience occurred as a result of practice and iteration. They did however express that there had been growth in the strategic sourcing team over the period of implementation. They were of the view that there was capability in WCG to execute strategic sourcing but that procurement processes were executed in a manner that stifled innovation. From their experience, leaders in strategic sourcing had a dedicated project management function and a dedicated business intelligence capability.

#### **8.4.4 Supplier Management System**

The management consultants indicated that the current supplier-development approach was insufficient as it lacked focus and was very superficially executed. In their experience, supplier development was usually integrated in the development of commodity strategies and the management consultants expressed that there was a need for greater emphasis to be placed on the market analysis phase of the process. They also highlighted that there was a need for training in contract management as this was an area of untapped value. The strategic sourcing team found that there was a real need for change management to be incorporated in the execution of strategic sourcing. The findings are discussed and assessed against the literature in the next section.



## **8.5 DISCUSSION OF FINDINGS**

The empirical research set out to determine how the Provincial Treasury implemented strategic sourcing, benchmark the approach against what was indicated in the literature and case studies in order to identify gaps in the approach and make recommendations to improve on the implementation. The findings of the empirical research will now be discussed from this vantage point.

### **8.5.1 Visionary Leadership**

In terms of this key success area it was found that whilst strategic sourcing formed part of the objectives of the Treasury, there was no Top Management involvement in the execution of the function and as such there was no one to champion the cause of strategic sourcing in the organisation. The literature and case studies are in unison that it is critical that a CPO champion strategic sourcing in the organisation (Chan et al, (2007:1393); Accenture (2012:67-68) and CIPS (2014:2). The Sasol case demonstrated that in the private sector, an individual at Chief Executive-level was identified to steer strategic sourcing whereas CAO's were responsible for the implementation of strategic sourcing in the United States FSSI (Crafford, 2010:24).

The research appears to highlight that there is a lack of commitment in both public sector instances where strategic sourcing is implemented (i.e. the Provincial Treasury and the United States FSSI). Whilst in the latter case there are champions identified for strategic sourcing (i.e. CAO's), their powers are said to be usurped by CFO's at implementation level, according to Yagoob et al., (2015:44-45).

### **8.5.2 Organisational Structure**

There was no reorganisation seen with the implementation of strategic sourcing in view of the fact that the function had to be performed in addition to other roles and responsibilities within the Directorate. The Provincial Treasury strategic sourcing team indicated the need for a dedicated function or Directorate for strategic sourcing and that the compliance role of the Directorate was in conflict with the role of strategic sourcing. The Directorate's predominant compliancy focus was seen to inhibit the innovative culture sought by strategic sourcing.

The lack of reorganisation found in this study supports the findings of Reed et al., (2005:272-274) on the implementation of commodity councils. The significant benefits demonstrated in Sasol's implementation of strategic sourcing also supports the view that success goes hand in hand with the level of investment made in terms of organisational reorganisation and capacitation (Crafford, 2010:24). The impact of legislation is also observed in the Directorate's prioritisation of compliance over efficiencies (performance). To this end it is seen that the Directorate, Provincial Government: Supply Chain Management, has a predominant focus on their oversight role as it relates to the monitoring of compliance to legislation which direct and indirectly prioritises compliance over performance. The latter is thus given the same attention or impetus as is evident from the interviews with SASS and the strategic sourcing team.

Another key gap found in the implementation of strategic sourcing is that there is no organisational (WCG) cross-functional team to drive or oversee the implementation of strategic sourcing. Cross-functional teams are found to be central to the execution of strategic sourcing in the literature as well as in the case studies (Crafford, 2010: 25); Censeo Consulting, (2008:14) & Rendon (2005:9-10). According to Reed et al., (2005: 272-273), commodity councils are constituted of an executive champion and subject matter experts. Chaplain (2013:1,6) noted that whilst there were commodity councils being used in the FSSI approach, decision-making was compromised as there was no clear mandate provided to a particular champion. This finding again demonstrates how gaps are mirrored in the public sector approaches of the Provincial Treasury and the United States FSSI.

### **8.5.3 Strategic Sourcing Process**

It was found that there is no standardised approach or methodology followed by the Provincial Treasury. The management consultants were not too concerned about this as they felt that strategic sourcing was more of an approach than process and accordingly should be intuitive as opposed to being overly formalised. The approach followed by the Provincial Treasury were found to incorporate tools and best practices indicated in Chapter 4 of this study. According to the consultants, greater emphasis is required on the market analysis phase of the process. From a governance perspective, the lack of oversight from an organisation-wide steering committee was found to be a critical gap. It was also found that there was a need for greater

representation from the Departments in cross-functional teams as opposed to the Treasury. The Sasol case highlighted very good benchmarks for governance that could be referred to in the implementation of strategic sourcing (Crafford, 2010:26-27, 95).

The lack of a benefits-tracking mechanism was also found to be another critical gap in the Provincial Treasury's approach. According to Chaplain (2013:7) the lack of clear guidance on metrics to measure success has negatively impacted the management of ongoing FSSI efforts. Crafford (2010:28) indicates that the demonstration of savings was critical in Sasol's implementation of strategic sourcing where external auditors were co-opted to vet the accuracy of savings quantified and a Centre of Excellence was established to monitor indices related to various commodities.

#### **8.5.4 People Element**

In this regard, it was found that there is sufficient capability in WCG to execute strategic sourcing. However, there were found to be gaps in the skill levels of the strategic sourcing team members. The management consultants noted that they had seen significant growth in the strategic sourcing team but that their additional functions detracted from the level of experience that could potentially accrue. In their view the level of proficiency was directly related to the level of practice and that in their opinion sufficient training had been provided in strategic sourcing. They further expressed that project management and business intelligence capability highly correlated with the level of success of strategic sourcing. It was noted that strategic sourcing brought visibility to the value of spend analysis and consequently business intelligence. This appears to be one of the key successes in the Treasury's roll out of strategic sourcing even though it was also noted in the same chapter that key challenges remain (Mtungara, 2016:1-2; Kaprey, 2016:1-2; Phillips, 2016:1-2; Nunu, 2016:1-2; Soetzenberg, 2016:1-2; Jacobs, 2016:1-2).

#### **8.5.5 Technology**

It was found that there was an increased uptake of technology with the implementation of strategic sourcing. Key gaps under technology included a lack of reverse auction functionality and a supplier and contract management electronic system. Provincial Treasury also experienced challenges in terms of the integration of disparate financial

systems given the moratorium by National Treasury to purchase ERP systems, pending the implementation of the IFMS, as was highlighted in Chapter 3 of this report (Mtungara, 2016:1-2; Kaprey, 2016:1-2; Phillips, 2016:1-2; Nunu, 2016:1-2; Soetzenberg, 2016:1-2; Jacobs, 2016:1-2).

### **8.5.6 Supplier Management System**

It is found that there is a need to increase awareness with suppliers around commodity strategies and that there was no proper monitoring and feedback system in place to track and develop supplier performance management. This was not an unusual finding given the historic position of government in terms of not wanting to engage its suppliers. It was proposed by Talluri et al., (2004:236-250) that strategic sourcing should incorporate strategic dimensions and capabilities of suppliers. A supplier management system is indicated by Chan et al., (2007:1407) as a systematic approach to managing suppliers by evaluating and selecting the right suppliers, collaborating with the best suppliers to improve procurement performance, developing suppliers through training and education in order to improve their capabilities; and helping suppliers to improve their performance based on monitoring and feedback.

## **8.6 CONCLUSION**

The chapter provided an overview of the empirical findings of the study. The key success areas identified for strategic sourcing were used to frame the evaluation questionnaire posed to the two groups of respondents as per the proposed Delphi method indicated in the previous chapter. Areas that lacked consensus included certain aspects of *Visionary Leadership*, *People Element* and a *Supplier Management System*. These areas formed the basis of the discussion for the second round of the Delphi method which encompassed a brainstorming session with the Provincial Treasury strategic sourcing team and the management consultants.

Key findings from this stage include the perceptions and experience that the Provincial Treasury leader for strategic sourcing is not appropriately vested and that the Provincial Treasury is not best suited to drive strategic sourcing. It is also indicated that there is a lack of understanding and drive in terms of strategic sourcing from senior management and that the compliancy role of the Directorate conflicts with the innovative, “out of the box” thinking that is required of strategic sourcing.

It is noted that there are appropriate skills for strategic sourcing in WCG but that the current process-oriented way of procurement does not elicit these skills. Supplier management is found to be less than optimal and there is a need to incorporate change management as part of the strategic sourcing implementation. The research conclusion and recommendations are discussed in the next and final chapter of the study.

## CHAPTER 9:

# CONCLUSION AND RECOMMENDATIONS

### 9.1 INTRODUCTION

The chapter provides the conclusion to the research which set out to determine whether strategic sourcing was successfully implemented by the Provincial Treasury in WCG. In this regard, the research had the following objectives:

- determine what the theoretical framework and case studies indicate as the manner in which strategic sourcing should be implemented;
- assess how the Provincial Treasury implemented strategic sourcing in pilot departments; and
- determine the gaps and make recommendations.

As an overview, the chapters are summarised in the next section in order to reflect on the various objectives of the research and to determine how the approach in the study fulfilled these objectives.

Principally the research set out to answer the question: *How well did the Provincial Treasury implement strategic sourcing in Western Cape Government?*

### 9.2 SUMMARY OF CHAPTERS

*Chapter 1* provided an overview of the research aims and objectives, motivation for the study and the approach that would be taken in the research. Limitations to the research were noted and a summary of the outline of the research was provided.

*Chapter 2* was aimed at situating the methodology of strategic sourcing within its core founding discourse which is the NPM. Noticeable contextual challenges were seen with the introduction of NPM which was important to highlight for the purpose of the study as it provided an understanding of some of the findings around reforms from which private sector tools such as strategic sourcing emanated. The literature amongst other highlighted that alternative approaches such as PVM could add greater

value in the implementation of strategic sourcing. Contextual differences between the private and public sector were incorporated to better define solutions for gaps found in the implementation of the strategic sourcing process.

*Chapter 3* provided an overview of the supply chain management legislation that impact strategic sourcing. In addition, the state of supply chain management in the public sector in relation to the elements of people, process and technology was reviewed. These elements were incorporated as part of the criteria in the evaluation framework used to assess how strategic sourcing was implemented in Chapter 8.

Public sector procurement is heavily constrained by procurement laws. Furthermore, the advancement of individual political objectives could also directly conflict with the goals and objectives of strategic sourcing. A discussion on the methodology of strategic sourcing, in the public sector, would not be complete without an assessment of these elements. Strategic sourcing imposes significant change on the organisation which would predominantly impact people, process and technology. It was determined that the skills required to execute strategic sourcing were vastly lacking in the current SCM workforce and that there was a need for government to establish a PCE to compensate for the existing gaps in capacity.

*Chapter 4* explored the step-by-step process of strategic sourcing and explained the various tools that are utilised in each of the phases. The information from this Chapter was used as a technical benchmark for the evaluation of the strategic sourcing process followed by the Western Cape Provincial Treasury in the execution of strategic sourcing.

*Chapter 5* expanded on the benchmarks for the implementation of strategic sourcing by discussing the approach of a private and public sector case study. A set of key success factors were identified which informed the rest of the criteria for the evaluation framework that was used to assess how strategic sourcing was executed.

*Chapter 6* provided a brief introduction to the Provincial Treasury Directorate that is tasked to implement strategic sourcing in WCG.

*Chapter 7* dealt with the research design and methodology that was followed to address the research question. The design was a qualitative case study which used

the Delphi Technique by way of two iterations. The first iteration consisted of an online questionnaire that denoted the themes which informed the evaluation framework. A brainstorming workshop constituted the second iteration. The data was analysed in terms of central tendencies which was synonymous with the themes used in the questionnaire. Chenail's matrix was used to categorise responses. Areas of agreement/consensus and variances were highlighted and discussed in greater depth in Chapter 8.

*Chapter 8* provided a discussion of the findings of the empirical research and related these back to the non-empirical part of the study, being the literature review. Recommendations were provided for areas where there were gaps identified by the research and these are contained under this chapter.

## **9.3 CONCLUSION**

In this investigation the aim was to determine if strategic sourcing had been successfully implemented by the Provincial Treasury in WCG. Various research objectives were formulated to address the research problem statement. It will now be assessed if each of the research objectives had been achieved.

### **9.3.1 Objective One**

*Determine what the theoretical framework and case studies indicate as to the manner in which strategic sourcing should be implemented;*

The literature review, theoretical framework for strategic sourcing and two case studies covered in Chapter 2 to 5 provided the necessary context for the strategic sourcing to unfold. In the main, however, these set out to provide the theoretical framework for how strategic sourcing should be implemented. It furthermore allowed the researcher to develop a set of key success factors for strategic sourcing used to develop a framework that was used to evaluate the implementation of strategic sourcing. This objective is deemed to have been achieved.



### 9.3.2 Objective Two

#### Assess how the Provincial Treasury implemented strategic sourcing in pilot departments;

The empirical study communicated in Chapter 7 was aimed at addressing this objective. A qualitative research design was used where the Delphi Technique was used as the primary research methodology. In terms of the Delphi approach, a two-staged iteration was used which consisted of an online Likert-type scale questionnaire which denoted key success areas identified for strategic sourcing and a brainstorming workshop to achieve consensus.

The study found that there were similar challenges in the Provincial Treasury case to those highlighted in the literature in respect of the implementation of strategic sourcing in the United States FSSI. In particular, it highlighted the lack of strategic orientation of procurement in the public sector, a lack of Top Management support for strategic sourcing and also that there was no actual CPO identified in WCG to champion strategic sourcing in the organisation.

One of the more significant findings to emerge from the study is that there was no WCG cross-functional team or steering committee to drive and oversee the development of commodity strategies. This could perhaps explain, the paradoxical finding, that there was no increase in centralised procurement seen with the implementation of strategic sourcing in WCG. The approach taken by the Treasury therefore appears to be less aggressive than is advocated in the literature.

From a process perspective it was found that whilst that there was reasonable alignment to best practices such as Laseter's Benchmarking Model (LBSM) and that tools such as Kraljic and SWOT analysis were used, areas such as market analysis needed improvement. Project Management capability was also highlighted by the consultants as a critical gap in the Treasury's approach, whilst change management was highlighted as a necessity for the implementation of strategic sourcing by the Treasury team. The study furthermore highlighted that there was no benefits-tracking system in place and that there was a need to incorporate greater supplier involvement, awareness and performance feedback.

Overall, the study provided key learnings that could enhance and mould ongoing efforts in the implementation of strategic sourcing. The evident “bottom up” approach that describes the Treasury’s implementation approach will continue to be a cause of frustration for the strategic sourcing team. It is supported by the literature that critical impact will only be seen once there is sufficient support from Top Management in addition to the utilisation of an organisation-wide steering committee to drive WCG’s strategic sourcing implementation. This objective is deemed to have been met through the application of the Delphi Group mode of observation.

### **9.3.3 Objective Three**

#### *Determine the gaps and make recommendations accordingly:*

The key gaps identified from the empirical study were highlighted in Chapters 7 and 8. Findings include that there is the perception and experience that the Provincial Treasury leader for strategic sourcing is not appropriately vested and that the Provincial Treasury is not best suited to drive strategic sourcing. It was also expressed that there is a lack of understanding and drive in terms of strategic sourcing from senior management and that the compliancy role of the Directorate conflicts with the innovative, “out of the box” thinking that is required of strategic sourcing. Whilst it is indicated that there are appropriate skills for strategic sourcing in WCG, the current process-oriented way of procurement does not elicit these skills. Supplier management was deemed to be less than optimal and there is a need to incorporate change management as part of the strategic sourcing implementation.

Recommendations in respect of the identified gaps are provided in the next section and as such it is concluded that this research objective has been met.

## **9.4 RECOMMENDATIONS**

The recommendations in terms of the research findings are as follows:

- a) It is proposed that the Provincial Treasury appoint a CPO in line with the National Treasury equivalent position. The CPO should be mandated to drive provincial strategic sourcing strategies and efficiency goals in line with cost containment targets.

- b) A WCG cross-functional steering committee should be established to oversee the development and implementation of strategic sourcing. A hybrid of the governance models used by Sasol and the United States FSSI should be used for this purpose. The dual structure adopted by Sasol could also be considered as an alternative execution model.
- c) The establishment of a Directorate for strategic sourcing as the compliancy focus of the current directorate will continue to detract from the priority that the function should achieve, especially in view of the drive by National Treasury to save cost.
- d) That a standardised methodology be implemented for strategic sourcing with particular emphasis on the development of a benefits-tracking methodology.
- e) That the Provincial Treasury establish a Project Management Office (PMO) with the requisite expertise to oversee all critical projects and to foster skills in this area.
- f) That supplier management feature more strongly in the development of commodity strategies.

## **9.5 LIMITATIONS OF THE STUDY**

The study focused on the implementation process followed in the application of strategic sourcing in a single case study within a specific environment, being that of the provincial public sector. It was by no means exhaustive and predominantly assessed the implementation process from a people, process and technology perspective. Strategic sourcing as an approach has many touchstones in a broad range of disciplines which encompasses behavioural sciences, organisational design, change management and many more disciplines which was in no way done justice to within the limited scope of this study.

## **9.6 RECOMMENDATIONS FOR FUTURE RESEARCH**

Further research might undertake to develop a bespoke model for the implementation of strategic sourcing in a public sector environment such as the WCG.

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## **Appendices**

APPENDIX A: SELF-ADMINISTERED QUESTIONNAIRE.

APPENDIX B: DELPHI BRAINSTORMING WORKSHOP SUMMARY.

**APPENDIX A****AN EVALUATION OF THE IMPLEMENTATION OF STRATEGIC SOURCING IN WCG***Self-administered Questionnaire***F1**

<b>VISIONARY LEADERSHIP</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
Strategic Sourcing forms part of the WCG Provincial strategy				
Strategic Sourcing objectives are clearly defined				
There is a procurement leader in WCG, (Chief Procurement Officer)				
The Procurement leader drives WCG Strategic Sourcing objectives				
Top Management is involved in Strategic Sourcing's execution				
There is a Steering Committee to oversee organisation –wide commodity strategy development				
Interdepartmental cross functional teams drive commodity strategy development				
Cross functional teams include leaders in procurement				
<b>ORGANISATIONAL STRUCTURE</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
The organisational structure was upgraded to effect Strategic Sourcing				
There is a dedicated directorate for Strategic Sourcing				
Job descriptions were aligned to incorporate the competencies for Strategic Sourcing				
The implementation of Strategic Sourcing effected significant structural change				
Increased Centralisation was seen with the implementation of Strategic Sourcing				
<b>PEOPLE ELEMENT</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
The Procurement leader (CPO) has the appropriate skills to drive Strategic Sourcing				
The Senior Management has the appropriate skills to drive the execution of Strategic Sourcing				
Provincial Treasury has the appropriate skills to drive Strategic Sourcing				
Management Consultants are most equipped to drive Strategic Sourcing in Provincial Treasury				

<b>PEOPLE ELEMENT</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
The Strategic Sourcing Team has received appropriate training on strategic sourcing				
The Strategic Sourcing Team can competently execute Strategic Sourcing				
The Strategic Sourcing Team have some skills gaps				
The Management Consultants have adequately transferred the skills to Provincial Treasury, Strategic Sourcing team				
<b>STRATEGIC SOURCING PROCESS</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
There is a standardised methodology for the execution of Strategic Sourcing				
The Methodology is in line with best practice models used in the private sector (eg. Laseter Sourcing Model)				
Tools such as Kraljic Matrix, SWOT etc are used in the execution of the process				
There is a formal approval of business cases for commodity strategies				
Provincial Treasury approved business cases				
A WCG Strategic Sourcing or Commodity Council approves business cases				
Top Management (eg, Provincial Top Management) approves business cases				
Strategic Sourcing Benefits are formally tracked				
Performance Monitoring Feedback is provided to WCG depts. On strategic sourcing targets				
<b>TECHNOLOGY</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
Increased use of technology was seen with the implementation of Strategic Sourcing				
The organisation has a spend analysis tool				
There is e-Reverse Auction tool in use				
An electronic supplier performance system in place				

<b>SUPPLIER MANAGEMENT SYSTEM</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
Suppliers are formally vetted and assessed for commodities				
Suppliers are trained on strategic sourcing strategies				
Suppliers are informed of performance expectations				
Suppliers are monitored and feedback provided to improve their performance				
Regular communication takes place with key suppliers				
Supplier Development takes place				

## APPENDIX B

### SUMMARY OF DELPHI BRAINSTORMING WORKSHOP

DATE OF WORKSHOP: 12/10/2016

#### GROUP 1: PROVINCIAL TREASURY STRATEGIC SOURCING TEAM PARTICIPANTS

- M Phillips
- K Jacobs
- S Mars (researcher & part of Strategic Sourcing team)
- T Soetzenberg
- L Nunu

#### GROUP 2: SA STRATEGIC SOURCING CONSULTANTS (SASS)

- E Mutangara (SASS)
- I Kaprey (SASS)

### DISCUSSION

#### Researcher

The areas where there were no consensus found at the questionnaire-level, in terms of the key success factors for strategic sourcing will be explored in the workshop in order to find consensus and understand gaps found in the implementation of strategic sourcing.

### VISIONARY LEADERSHIP COMMENTS

#### E. Mtungara

CPO role not elevated at the right role. Needs to sit at the CFO level which equates to Accounting Officer level. Shouldn't have to report into anyone. Not at the strategic level.

#### Strategic Sourcing Team

Not a dedicated function. Should be a dedicated function and not an additional function. At the Department of Health there is a dedicated Director and the same should be in Provincial Treasury.

#### E. Mtungara

The strategic sourcing team's performance areas are not dedicated to strategic sourcing. Asked the strategic sourcing team if the Chief Director: Asset Management has strategic sourcing on his performance agreement.

Strategic Sourcing Team - Management don't know or understand enough of strategic sourcing.

E. Mtungara - bits and pieces of strategic sourcing function built but not full blown implementation seen to date.

#### Researcher

Does SASS think that a cross functional team across PT would work for strategic sourcing?



E. Mtungara

Provincial Treasury should still get departments co-opted and PT could play a more coordinated role. PT- Should drive centralised commodities but technical specialist “natural owner” to drive those commodities. SASS propose the model of centralised coordination and decentralised execution.

Researcher

What are the thoughts on a structure for strategic sourcing?

E. Mtungara

It wouldn't make sense to have a large structure in provincial treasury. It should rather look at alternative models where there is co-option from departments.

The problem is that with the PT approach to strategic sourcing, the budget allocated to consultant spend was not sufficient. Normally they (management consultants) have multiple streams looking at various optimisation strategies with an overall project manager or Project Management Office (PMO). Provincial Treasury's approach meant that the full spectrum of streams weren't led which impacted the thrust of the implementation of strategic sourcing. Should have had quick wins to demonstrate value. Normally have multiple streams running concurrently to look at different areas like processes; tools; people etc and not the way PT has been doing it where there is a little bit of everything being done which didn't have the impact. The budgets for strategic sourcing are too small to sufficiently demonstrate the value which also demonstrates the lack of top management perception of the value of strategic sourcing.

**PEOPLE**Leaderships Skill and appetite for Strategic sourcing.E. Mtungara (SASS)

Skill only develops through practice and iteration. Need to be involved. There has been growth in the team but it is reflective of the time dedicated to strategic sourcing. This is reflective of the organisational support of Strategic sourcing. Enough training was given; there is a need for applied knowledge.

L. Nunu (Strategic Sourcing team)

Departments don't have a dedicated strategic sourcing team which affects the implementation of strategic sourcing.

E. Mtungara (SASS)

Strategic sourcing is not so much about structure but how to change to mindset of SCM. Strategic sourcing is really just common sense. The organisation is however boxing people into working in a particular way.

Cross functional teams can still play a role and bring in the added functions in an integrated way.

I. Kaprey (SASS) Departments are not at a strategic level. More compliance oriented, risk averse.

E. Mtungara– The departments have the ability to execute strategic sourcing, the current procurement process just don't extract that skill.

Service delivery is not appropriately defined in the Organisation. The private sector is very aggressive in their implementation of strategic sourcing. They are now seeking partnerships where consultants get paid a portion of the savings.

E. Mtungara - Government should look at Public Private Partnerships as a vehicle. It could be a model to explore as part of strategic sourcing.

L. Nunu (Strategic Sourcing Team) - There is this system of spending in government which is counterintuitive to strategic sourcing.

K. Jacobs (Strategic Sourcing Team)- There has to be a vision for strategic sourcing. The organisation needs to be focussed. There is no clear direction from management as to where strategic sourcing is going. There is a need to free up the time of the officials to do strategic sourcing properly.

Is there a 5 year plan for Strategic Sourcing? – No. Clearly no direction from management. There are management shortcomings to guide the team in terms of strategic sourcing. Management has to sell strategic sourcing at the focus group.

E. Mtungara (in his view)

Strong Project Management Capability did better at Strategic Sourcing. Have PMO and coordinator which was a very powerful tool.

Organisations who had a solid BI unit did well in strategic sourcing. There are elements that are provided in the organisation that support the market analysis.

## **SUPPLIER MANAGEMENT**

E. Mtungara

When a sourcing strategy is developed then the supplier development also forms part of the analysis. PT not doing it as well as others in industry and does it very superficially.

Researcher

Was there a separate stream to look at supplier development in their private sector experience?

E. Mtungara

It would form part of the market analysis and supplier relations. They would look at things such as the regulatory requirements that pertain to the commodity. They see contract management as an extension of this. Train the contract managers to do the M&E as long as it is built into the contract. This is an area that needs a lot of work in government.

L. Nunu- Change Management is a requirement for strategic sourcing in the public sector.